
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of the Partial Offer, this Composite Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Chong Hing Bank Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s), licensed securities dealer or registered institution in securities, or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

This Composite Document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms and conditions of the Partial Offer.

The Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this Composite Document and the accompanying Form of Acceptance, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form of Acceptance.



越秀企業(集團)有限公司
YUE XIU ENTERPRISES (HOLDINGS) LIMITED

(a limited company incorporated in Hong Kong)



創興銀行有限公司
Chong Hing Bank Limited

(a Hong Kong-incorporated limited liability company)
(Stock Code: 1111)



越秀金融控股有限公司
YUE XIU FINANCIAL HOLDINGS LIMITED

(a limited company incorporated in Hong Kong)

**COMPOSITE OFFER AND RESPONSE DOCUMENT
VOLUNTARY CASH PARTIAL OFFER BY NOMURA
ON BEHALF OF YUE XIU FINANCIAL HOLDINGS LIMITED TO ACQUIRE
A MAXIMUM OF 326,250,000 CHB SHARES IN THE CAPITAL OF
CHONG HING BANK LIMITED
(REPRESENTING 75% OF ITS ISSUED SHARE CAPITAL)
FROM QUALIFYING CHB SHAREHOLDERS**

Financial Adviser to the Offeror

NOMURA

Financial Adviser to CHB



Independent Financial Adviser to the CHB Code Independent Board Committee



SOMERLEY LIMITED

CHB Shareholders should inform themselves of and observe any applicable legal or regulatory requirements. See "Important Notice" beginning on page 3 of this Composite Document, and "Overseas CHB Shareholders" in the letter from Nomura and Appendix I to this Composite Document beginning on page 18 and page I-10 of this Composite Document, respectively.

Capitalised terms used in this cover page have the same meaning as those defined in the section headed "Definitions" in this Composite Document. A letter from Nomura containing, among other things, the details of the terms and conditions of the Partial Offer is set out on pages 11 to 30 of this Composite Document. A letter from the CHB Board is set out on pages 31 to 39 of this Composite Document. A letter from the CHB Code Independent Board Committee containing its recommendation to the Independent CHB Shareholders in respect of the Partial Offer is set out on pages 40 to 41 of this Composite Document. A letter from Somerley, the CHB Independent Financial Adviser containing its advice to the CHB Code Independent Board Committee in respect of the Partial Offer is set out on pages 42 to 70 of this Composite Document.

The procedures for acceptance and settlement of the Partial Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances of the Partial Offer should be received by the Share Registrar by no later than 4:00 p.m. on Wednesday, 5 February 2014, being the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve.

Any persons including, without limitation, custodians, nominees and trustees, who would, or otherwise intend to, forward this Composite Document and/or the accompanying Form of Acceptance to any jurisdiction outside of Hong Kong should read the section headed "Overseas CHB Shareholders" in the letter from Nomura and Appendix I to this Composite Document before taking any action. It is the responsibility of each overseas Qualifying CHB Shareholder wishing to accept the Partial Offer to satisfy himself, herself or itself as to full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required and the compliance with other necessary formalities or legal requirements. Overseas Qualifying CHB Shareholders are advised to seek professional advice on deciding whether to accept the Partial Offer.

15 January 2014

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EXPECTED TIMETABLE

The timetable set out below assumes that the Partial Offer will become or be declared unconditional in all respects on or before the 7th day after the despatch date of this Composite Document and therefore the Final Closing Date will be on the First Closing Date. The timetable is indicative only and any changes to the timetable will be jointly announced by Yuexiu, the Offeror and CHB.

Despatch date of this Composite Document Wednesday, 15 January 2014

Partial Offer open for acceptance Wednesday, 15 January 2014

LCH Estate's acceptance of the Partial Offer under
the LCHI Irrevocable Undertaking (*Note 1*) by Monday, 20 January 2014

First Closing Date and Final Closing Date assuming that
the Partial Offer is declared unconditional in all
respects on the date of LCH Estate's acceptance of the
Partial Offer (*Note 2*) Wednesday, 5 February 2014

Announcement of the results of the
Partial Offer as at the First Closing Date
and Final Closing Date (assuming that
the Partial Offer is declared unconditional
in all respects on the date of LCH Estate's
acceptance of the Partial Offer) to be posted
on the website of the Stock Exchange (*Note 3*) no later than 7:00 p.m. on
Wednesday, 5 February 2014

Latest date for posting of remittances for
amounts due under the Partial Offer
in respect of the CHB Shares tendered
for acceptance and taken up by
the Offeror (*Note 4*) Friday, 14 February 2014

Notes:

1. LCHI and LCH Estate have irrevocably undertaken, jointly and severally, to Yuexiu that the Partial Offer will be accepted by LCH Estate in respect of all of the LCH Estate IU Shares not later than three business days (as defined in the Code) after the despatch date of the Composite Document. If the Partial Offer becomes unconditional in all respects, LCH Estate will, pursuant to the LCHI Irrevocable Undertaking, sell at least 163,769,721 CHB Shares (being 75% of the LCH Estate IU Shares) and up to 218,359,628 CHB Shares (being all of the LCH Estate IU Shares). The percentage of the share capital of CHB made up by all of the LCH Estate IU Shares is 50.2%. Therefore, once LCH Estate tenders its acceptance of the Partial Offer in respect of all of the LCH Estate IU Shares under the Irrevocable Undertaking, the acceptance condition set out at paragraph 1(a) of the Letter From Nomura will have been met. All Conditions other than the acceptance condition have been satisfied as at the Latest Practicable Date. The Partial Offer is therefore expected to become unconditional prior to the 7th day after the date of this Composite Document.

EXPECTED TIMETABLE

2. In order to accept the Partial Offer, Qualifying CHB Shareholders are required to submit the duly completed Form of Acceptance to the Share Registrar on or before 4:00 p.m. on Wednesday, 5 February 2014, being the First Closing Date, or such other time and/or date as the Offeror may decide and announce and the Executive may approve. Pursuant to Rule 15.3 of the Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptances for not less than 14 days thereafter. Accordingly, if the Partial Offer is declared unconditional in all respects on or before the 7th day after the despatch date of this Composite Document (being Wednesday, 22 January 2014), then the Final Closing Date would be the First Closing Date, being 21 days after the despatch date of the Composite Document.

Pursuant to Rule 28.4 of the Code, if the Partial Offer has been declared unconditional as to acceptances on the First Closing Date, the Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date.

Beneficial owners of CHB Shares who hold their CHB Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements (set out in Appendix I) for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

3. The announcement of the results of the Partial Offer will be jointly issued by Yuexiu, the Offeror and CHB and posted on the Stock Exchange's website by 7:00 p.m. on the Final Closing Date. Such announcement will comply with the disclosure requirements under Rule 19.1 and Note 7 to Rule 19 of the Code and will include, among other things, the results of the Partial Offer and details of the way in which each accepting CHB Shareholder's pro rata entitlement was determined.
4. Remittances in respect of the CHB Shares tendered for acceptance and taken up by the Offeror under the Partial Offer (after deducting the seller's ad valorem stamp duty arising therefrom and, if applicable, the fees payable to the Share Registrar in respect of lost or unavailable CHB Share certificates) will be posted to the relevant Qualifying CHB Shareholders by ordinary post at their own risk as soon as possible, but in any event within seven business days (as defined in the Code) following the Final Closing Date.
5. The latest time and date by which the Partial Offer can be declared unconditional as to acceptances is 7:00 p.m. on Wednesday, 5 February 2014.

All references to times and dates contained in this Composite Document are to Hong Kong times and dates.

IMPORTANT NOTICE

NOTICE TO OVERSEAS CHB SHAREHOLDERS

The Partial Offer is in respect of a company incorporated and listed in Hong Kong and is therefore subject to the procedure and disclosure requirements of laws, regulatory and rules in Hong Kong which may be different to those in other jurisdictions. The ability of Qualifying CHB Shareholders who are citizens, residents or nationals of jurisdictions outside of Hong Kong to participate in the Partial Offer may be subject to the laws and regulations of the relevant jurisdictions. It is the responsibility of each such Qualifying CHB Shareholder to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including obtaining any governmental, exchange control or other consents, or filing and registration and the payment of any transfer or other taxes due from such Qualifying CHB Shareholder in such relevant jurisdictions.

For further discussion, please refer to the section headed “Overseas CHB Shareholders” in the letter from Nomura and the section headed “Overseas CHB Shareholders” in Appendix I to this Composite Document.

The Partial Offer is made in accordance with the applicable laws and regulatory requirements of Hong Kong. The Offeror has sought legal advice from its PRC legal advisers. Based on the advice of the Offeror’s PRC legal advisers, it would be in contravention of the laws of the PRC if the Partial Offer is extended to the Excluded Shareholder. It would therefore be unduly burdensome for the Offeror to extend the Partial Offer to the Excluded Shareholder for the purpose of Note 3 to Rule 8 of the Code. Based on the advice of the Offeror’s PRC legal advisers, the Offeror will only send this Composite Document (but not the Form of Acceptance), together with the Overseas Letter, to the Excluded Shareholder for his/her information only. The Offeror has applied for a waiver pursuant to Note 3 to Rule 8 of the Code that the Partial Offer will not be made to the Excluded Shareholder in the PRC.

Neither the information in this document nor any other document relating to the Partial Offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended (“FSMA”)) has been published or is intended to be published in respect of the CHB Shares.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 FSMA) received in connection with the Partial Offer has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which section 21(1) FSMA does not apply. In the United Kingdom, this document is being distributed only to, and is directed at persons to whom it may lawfully be communicated under Article 62 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, and/or any other persons to whom it may lawfully be communicated (all such persons being referred to as “Relevant Persons”).

Any invitation, offer or agreement to purchase CHB Shares will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Composite Document contains forward-looking statements, which may be identified by words such as “believe”, “expect”, “anticipate”, “intend”, “plan”, “seek”, “estimate”, “will”, “would” or words of similar meaning, that involve risks and uncertainties, as well as assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements.

DEFINITIONS

In this Composite Document, the following expressions have the meanings set out below unless the context requires otherwise:

“acting in concert”	has the meaning defined in the Code;
“Alba”	means Alba Holdings Limited, which is a substantial shareholder of LCHI and of which Mr. Liu Lit Chi and his associates (as defined in the Listing Rules) are shareholders;
“Announcement”	means the joint announcement dated 25 October 2013 issued by Yuexiu, the Offeror, CHB and LCHI;
“associate(s)”	has the meaning defined in the Code;
“BTMU”	means The Bank of Tokyo-Mitsubishi UFJ, Ltd;
“CCASS”	means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited;
“CHB”	means Chong Hing Bank Limited, a Hong Kong-incorporated limited liability company listed on the Main Board of the Stock Exchange with Stock Code 1111;
“CHB Board”	means the board of directors of CHB;
“CHB Circular”	means the circular of CHB dated 4 December 2013 in relation to the Property Agreement and containing, among other things, the notice of the CHB EGM;
“CHB Code Independent Board Committee”	means the independent committee of the CHB Board (comprising Mr. He Jiale, Mr. Hidekazu Horikoshi, Mr. Alfred Cheuk Yu Chow, Mr. Meng Qinghui, Dr. Robin Yau Hing Chan, Mr. Timothy George Freshwater, Mr. Wanchai Chiranakhorn, Mr. Cheng Yuk Wo and Mr. Andrew Chiu Cheung Ma, being all the non-executive CHB Directors (other than Mr. Christopher Kwun Shing Liu) and all the independent non-executive CHB Directors) established for the purpose of advising the Independent CHB Shareholders in respect of the Partial Offer and the Property Agreement pursuant to the requirements of the Code;
“CHB Directors”	means the directors of CHB;

DEFINITIONS

“CHB EGM”	means the extraordinary general meeting of CHB held on 20 December 2013 at which the Property Agreement was approved by the Independent CHB Shareholders;
“CHB Group”	means CHB and its subsidiaries;
“CHB Independent Board Committees”	means the CHB Code Independent Board Committee and the CHB LR Independent Board Committee;
“CHB Independent Financial Adviser” or “Somerley”	means Somerley Limited, the independent financial adviser to the CHB Independent Board Committees in respect of the Partial Offer and the Property Agreement. Somerley Limited is a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO;
“CHB LR Independent Board Committee”	means the independent committee of the CHB Board (comprising Dr. Robin Yau Hing Chan, Mr. Timothy George Freshwater, Mr. Wanchai Chiranakhorn, Mr. Yuk Wo Cheng and Mr. Andrew Chiu Cheung Ma, being all the independent non-executive CHB Directors) established for the purpose of advising the Independent CHB Shareholders in respect of the Property Agreement pursuant to the requirements of the Listing Rules;
“CHB Shareholders”	means registered holders of CHB Shares;
“CHB Shares”	means the ordinary shares of HK\$0.50 each in the capital of CHB;
“CHB Special Dividend”	means the conditional special interim cash dividend of HK\$4.5195 per CHB Share which was declared by the CHB Board on 18 December 2013;
“Code”	means the Hong Kong Code on Takeovers and Mergers;
“Composite Document”	means this composite offer and response document in respect of the Partial Offer jointly issued by Yuexiu, the Offeror and CHB in accordance with the Code, as may be revised or supplemented as appropriate;
“Conditions”	means the conditions of the Partial Offer;
“connected person”	has the meaning defined in the Listing Rules;
“controlling shareholder”	has the meaning defined in the Listing Rules;

DEFINITIONS

“Deed of Agreement”	means the deed of agreement dated 25 October 2013 entered into between CHB and Yuexiu in respect of inducement fees;
“Excluded Shareholder”	means one CHB Shareholder whose registered address as stated in the Register as at the Latest Practicable Date was in the PRC;
“Executive”	means the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director;
“Facility”	means the loan facility, pursuant to the Facility Agreement, of an amount of up to US\$905,000,000 arranged by Nomura, Bank of Taiwan, Mega International Commercial Bank Co., Ltd., Central Branch and DBS Bank Ltd. as mandated lead arrangers and provided by Nomura Special Investments Singapore Pte. Ltd., DBS Bank Ltd., Mega International Commercial Bank Co., Ltd., Central Branch, Bank of Taiwan, Hong Kong Branch and Bank of Taiwan, Offshore Banking Branch as original lenders to Yuexiu in respect of the financing of the Partial Offer;
“Facility Agreement”	means the facility agreement dated 25 October 2013, entered into between, among others, Yuexiu as borrower and Bank of Taiwan, Hong Kong Branch as facility agent;
“Final Closing Date”	means the date which is the 14th day after the date on which the Partial Offer becomes or is declared unconditional in all respects, provided that the Partial Offer will be open for acceptance for at least 21 days following the despatch date of this Composite Document;
“First Closing Date”	means the first closing date of the Partial Offer as set out in the section headed “Expected Timetable” in this Composite Document, or such later date as may be extended by the Offeror in accordance with the Code;
“Form of Acceptance”	means the form of acceptance in respect of the Partial Offer accompanying this Composite Document;
“GMPG”	means the Guangzhou Municipal People’s Government of the PRC;
“HK\$”	means Hong Kong dollars, the lawful currency of Hong Kong;
“HKMA”	means the Hong Kong Monetary Authority;
“Hong Kong”	means the Hong Kong Special Administrative Region of the People’s Republic of China;

DEFINITIONS

“Independent CHB Shareholders”	means the CHB Shareholders other than Dr. Liu Lit Mo, Mr. Liu Lit Chi, Dr. Liu Lit Chung, Mr. Andrew Liu, Mr. Winston Kam Fai Liu, Mr. Arthur Kam Yuen Au and his spouse, LCH Estate, Alba and BTMU and any other CHB Shareholders who are involved in or interested in the Property Agreement and their respective associates (as defined in the Listing Rules) and any persons acting in concert with any of Dr. Liu Lit Mo, Mr. Liu Lit Chi, Dr. Liu Lit Chung, Mr. Andrew Liu, Mr. Winston Kam Fai Liu, Mr. Arthur Kam Yuen Au and his spouse, LCH Estate, Alba and BTMU and any other CHB Shareholders who are involved in or interested in the Property Agreement;
“IU Commitment”	means the commitments made by LCHI under the LCHI Irrevocable Undertaking to accept, or procure the acceptance of, the Partial Offer in respect of all of the LCH Estate IU Shares;
“IU Shares”	means the total of (i) the 218,359,628 CHB Shares held by LCH Estate, representing its entire interest in CHB and 50.20% of the issued share capital of CHB; and (ii) the 2,263,211 CHB Shares held by Alba, representing its entire interest in CHB and 0.52% of the issued share capital of CHB;
“Last Trading Date”	means 23 October 2013, being the last trading day prior to the suspension of trading in CHB Shares pending the publication of the Announcement;
“Latest Practicable Date”	10 January 2014, being the latest practicable date prior to the despatch of this Composite Document for the purpose of ascertaining certain information contained herein;
“LCH Estate”	means Liu Chong Hing Estate Company, Limited, a controlling shareholder of CHB and a wholly-owned subsidiary of LCHI;
“LCH Estate IU Shares”	means the 218,359,628 CHB Shares held by LCH Estate, representing its entire interest in CHB and 50.20% of the issued share capital of CHB;
“LCHI”	means Liu Chong Hing Investment Limited, a company incorporated under the laws of Hong Kong with limited liability and listed on the Main Board of the Stock Exchange with Stock Code 194;
“LCHI Circular”	means the circular of LCHI dated 4 December 2013 in relation to the IU Commitment and the Property Agreement and containing, among other things, the notice of the LCHI EGM;

DEFINITIONS

“LCHI Directors”	means the directors of LCHI;
“LCHI Distribution in Specie”	means the possible interim distribution in specie by LCHI to LCHI Shareholders of some of the CHB Shares held by LCH Estate after the closing of the Partial Offer, such distribution to be made in proportion to the shareholdings of the LCHI Shareholders in LCHI at the record date to be determined by the LCHI Directors;
“LCHI EGM”	means the extraordinary general meeting of LCHI held on 20 December 2013 at which each of the IU Commitment and the Property Agreement was approved by the LCHI Shareholders;
“LCHI Group”	means LCHI and its subsidiaries;
“LCHI Irrevocable Undertaking”	means the irrevocable undertaking entered into between L. Holdings, LCH Estate, LCHI, Alba and Yuexiu dated 25 October 2013;
“LCHI Shareholders”	means holders of LCHI Shares;
“LCHI Shares”	means the ordinary shares of HK\$1.00 each in the capital of LCHI;
“Lease”	means the lease to be entered into between CHB (as tenant) and LCHI (as landlord) for certain parts of the Property upon the completion of the Property Transfer;
“L. Holdings”	means Liu’s Holdings Limited, which is a controlling shareholder of LCHI and of which Dr. Liu Lit Mo, Mr. Liu Lit Chi and Dr. Liu Lit Chung, all of whom are LCHI Directors, are shareholders;
“Listing Rules”	means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“Long Stop Date”	means 25 February 2014, being the date falling four months after the date of the Announcement, or such other date as the parties to the LCHI Irrevocable Undertaking may agree in writing;
“Macau”	the Macau Special Administrative Region of the People’s Republic of China;

DEFINITIONS

“Nomura”	means Nomura International (Hong Kong) Limited, an institution licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO, the financial adviser to the Offeror in relation to the Partial Offer;
“Offeror”	means Yuexiu Financial Holdings Limited, a limited company incorporated under the laws of Hong Kong and wholly owned by Yuexiu;
“Offer Period”	has the meaning defined in the Code;
“Offer Price”	means HK\$35.69 per CHB Share;
“Overseas Letter”	a letter from the Offeror to the Excluded Shareholder explaining the circumstances under which the Excluded Shareholder is not permitted to participate in the Partial Offer;
“Partial Offer”	means the pre-conditional voluntary cash partial offer by Nomura on behalf of the Offeror to the Qualifying CHB Shareholders to acquire a maximum of 326,250,000 CHB Shares (representing 75% of the issued share capital of CHB) at the Offer Price and any subsequent revision or extension of such offer;
“PRC”	means the People’s Republic of China which, for the purpose of this Composite Document, excludes Hong Kong, Macau and Taiwan;
“Pre-Condition”	means the pre-condition to the making of the Partial Offer, being the granting of approval by the HKMA for each of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), Yuexiu and the Offeror to become a majority shareholder controller of CHB under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), which has been satisfied on 8 January 2014;
“Property”	means Chong Hing Bank Centre at No. 24 Des Voeux Road Central, Hong Kong;
“Property Agreement”	means the agreement dated 25 October 2013 entered into between CHB and LCHI for the Property Transfer and the Lease;
“Property Transfer”	means the sale by CHB and purchase by LCHI of the Property at the Property Transfer Consideration;
“Property Transfer Consideration”	means the consideration for the Property Transfer, being HK\$2,230 million;

DEFINITIONS

“Qualifying CHB Shareholders”	means CHB Shareholders other than the Offeror and parties acting in concert with it and the Excluded Shareholder;
“Record Date”	means the date immediately prior to the Final Closing Date, being the record date for determining CHB Shareholders’ entitlement to the CHB Special Dividend;
“Register”	means the register of members of CHB;
“Relevant Period”	means the period commencing on 8 February 2013, being the date falling six months prior to 8 August 2013, being the commencement date of the Offer Period, and up to and including the Latest Practicable Date;
“SFC”	means the Securities and Futures Commission of Hong Kong;
“SFO”	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Share Registrar”	means Computershare Hong Kong Investor Services Limited, the share registrar and transfer office of CHB;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“subsidiaries”	has the meaning defined in the Listing Rules;
“substantial shareholder”	has the meaning defined in the Listing Rules;
“UBS”	means UBS AG, acting through its Hong Kong branch, a registered institution licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO, the financial adviser to CHB;
“Yuexiu”	means Yue Xiu Enterprises (Holdings) Limited, a limited company incorporated under the laws of Hong Kong and a wholly owned subsidiary of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), which is a State-owned limited liability company incorporated in the PRC beneficially wholly owned by the GMPG;
“Yuexiu Group”	means Yuexiu and its subsidiaries; and
“%”	means per cent.

In the event of inconsistency, the English text of this Composite Document shall prevail over the Chinese text.

** for identification purpose only*

LETTER FROM NOMURA

NOMURA

Nomura International (Hong Kong) Limited
30/F, Two International Finance Centre
8 Finance Street
Central, Hong Kong

15 January 2014

To the Qualifying CHB Shareholders

Dear Sir or Madam,

INTRODUCTION

On 25 October 2013, Yuexiu, the Offeror, CHB and LCHI jointly announced that Nomura would, on behalf of the Offeror, make a pre-conditional voluntary cash partial offer to acquire a maximum of 326,250,000 CHB Shares (representing 75% of the CHB Shares in issue as at the date of the Announcement) from the Qualifying CHB Shareholders at the Offer Price of HK\$35.69 per CHB Share. The making of the Partial Offer was subject to the satisfaction of the Pre-Condition, being the granting of approval by the HKMA for each of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), Yuexiu and the Offeror to become a majority shareholder controller of CHB under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong). On 9 January 2014, Yuexiu, the Offeror and CHB jointly announced that the Pre-Condition had been satisfied.

This letter forms part of this Composite Document and sets out certain background information of Yuexiu and the Offeror, the reasons for making the Partial Offer and the intentions of the Offeror in relation to CHB. The terms of the Partial Offer are set out in this letter, Appendix I to this Composite Document and in the accompanying Form of Acceptance.

Your attention is also drawn to the letter from the CHB Board on pages 31 to 39, the letter from the CHB Code Independent Board Committee on pages 40 to 41 and the letter from the CHB Independent Financial Adviser on pages 42 to 70 in this Composite Document.

THE PARTIAL OFFER

Nomura is, on behalf of the Offeror, making the Partial Offer on the following basis:

For each CHB Share HK\$35.69 in cash

LETTER FROM NOMURA

1. Conditions of the Partial Offer

The Partial Offer was subject to the fulfilment of the following Conditions:

- (a) valid acceptances of the Partial Offer being received in respect of a minimum of 217,500,001 CHB Shares (representing 50% of the CHB Shares in issue as at the date of the Announcement plus one CHB Share) by 4:00 p.m. on or prior to the First Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve), provided that the Offeror shall purchase as many CHB Shares as are tendered by Qualifying CHB Shareholders up to a maximum of 326,250,000 CHB Shares (representing 75% of the CHB Shares in issue as at the date of the Announcement);
- (b) consent from the Executive in respect of the Partial Offer pursuant to Rule 28.1 of the Code;
- (c) consent from the Executive in respect of the Property Agreement as a special deal in relation to the Partial Offer;
- (d) approval by the LCHI Shareholders of the IU Commitment and the Property Agreement in accordance with the Listing Rules; and
- (e) approval by the Independent CHB Shareholders of the Property Agreement in accordance with the Listing Rules and the Code.

None of the Conditions may be waived by the Offeror.

As at the Latest Practicable Date, Conditions (b), (c), (d) and (e) have been fulfilled, leaving only the acceptance condition under paragraph 1(a) above to be fulfilled before the Partial Offer can be declared or will become unconditional in all respects.

LCHI and LCH Estate have irrevocably undertaken, jointly and severally, to Yuexiu that the Partial Offer will be accepted by LCH Estate in respect of all of the LCH Estate IU Shares not later than three business days (as defined in the Code) after the despatch date of the Composite Document. If the Partial Offer becomes unconditional in all respects, LCH Estate will, pursuant to the LCHI Irrevocable Undertaking, sell at least 163,769,721 CHB Shares (being 75% of the LCH Estate IU Shares) and up to 218,359,628 CHB Shares (being all of the LCH Estate IU Shares). The percentage of the share capital of CHB made up by all of the LCH Estate IU Shares is 50.2%. Therefore, once LCH Estate tenders its acceptance of the Partial Offer in respect of all of the LCH Estate IU Shares under the LCHI Irrevocable Undertaking, the acceptance condition set out at paragraph 1(a) above will have been met. The Partial Offer is therefore expected to become unconditional prior to the 7th day after the date of this Composite Document.

LETTER FROM NOMURA

Pursuant to Rule 15.3 of the Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptances for not less than 14 days thereafter. Accordingly, if the Partial Offer is declared unconditional in all respects on or before the 7th day after the date of this Composite Document, then the Final Closing Date would be on (but no earlier than) the First Closing Date, being 21 days after the despatch date of the Composite Document.

Pursuant to Rule 28.4 of the Code, if the Partial Offer has been declared unconditional as to acceptances on the First Closing Date, the Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date.

Under Rule 28.5 of the Code, a partial offer which could result in the offeror holding 30% or more of the voting rights of a company must normally be conditional on the approval by shareholders holding over 50% of the voting rights not held by the offeror and its parties acting in concert with it by means of signifying their approval on a separate box on the form of acceptance. The Offeror has applied for, and the Executive has granted, a waiver from this requirement on the basis that: (i) LCH Estate, holding greater than 50% of the voting rights of CHB, indicates its approval under Rule 28.5 (which approval was given in the Announcement); and (ii) LCH Estate confirms that it is not acting in concert with the Offeror (which confirmation was given in the Announcement). Accordingly, the Partial Offer is not conditional upon satisfaction of the requirement under Rule 28.5 of the Code.

WARNING: The Partial Offer may or may not become unconditional and will lapse if it does not become unconditional. Completion of the Partial Offer is therefore a possibility only. CHB Shareholders and prospective investors are advised to exercise caution when dealing in the securities of CHB.

LETTER FROM NOMURA

2. Comparisons of value

	Share price of CHB HK\$	Premium/ (Discount) of the Offer Price to the share price %
Closing price as quoted on the Stock Exchange on 6 August 2013, being one day immediately prior to the announcement of 7 August 2013 issued jointly by LCHI and CHB in response to media reports regarding a possible disposal of interests in CHB	22.45	59.0
Average closing price as quoted on the Stock Exchange for the 120 trading days immediately prior to and including the Last Trading Date	24.84	43.7
Average closing price as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date	26.56	34.4
Average closing price as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date	29.46	21.2
Average closing price as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date	32.90	8.5
Average closing price as quoted on the Stock Exchange for the 10 trading days immediately prior to and including the Last Trading Date	34.47	3.5
Average closing price as quoted on the Stock Exchange for the 5 trading days immediately prior to and including the Last Trading Date	35.34	1.0
Closing price as quoted on the Stock Exchange on the Last Trading Date	37.40	(4.6)
Closing price as quoted on the Stock Exchange on the Latest Practicable Date	35.40	0.8

3. Highest and lowest closing prices of CHB Shares

During the Relevant Period, the highest closing price of CHB Shares as quoted on the Stock Exchange was HK\$37.40 per CHB Share on 23 October 2013, and the lowest closing price of CHB Shares as quoted on the Stock Exchange was HK\$15.58 per CHB Share on 4 March 2013.

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4. Total consideration under the Partial Offer

As at the Latest Practicable Date, there were 435,000,000 CHB Shares in issue. The Partial Offer, based on the Offer Price of HK\$35.69 per CHB Share, is valued at: (i) approximately HK\$7,763 million assuming valid acceptances of the Partial Offer are received in respect of 217,500,001 CHB Shares; and (ii) approximately HK\$11,644 million assuming valid acceptances of the Partial Offer are received in respect of 326,250,000 CHB Shares. On the basis of the Offer Price of HK\$35.69 per CHB Share, the entire issued share capital of CHB is valued at approximately HK\$15,525 million.

5. Confirmation of financial resources

Assuming full acceptance of the Partial Offer in respect of 326,250,000 CHB Shares, the financial resources required by the Offeror to satisfy its obligations under the Partial Offer will amount to approximately HK\$11,644 million. The funds required by the Offeror to satisfy the consideration of the Partial Offer will be financed from internal resources of Yuexiu and the Facility. The Offeror does not intend that the payment of interest on, repayment of or security for any liability (contingent or otherwise) relating to the Facility will depend to any significant extent on the business of CHB.

Nomura, financial adviser to the Offeror, is satisfied that sufficient financial resources are, and will remain, available to the Offeror and Yuexiu to satisfy full acceptance of the Partial Offer in respect of 326,250,000 CHB Shares.

6. Inducement fee

On 25 October 2013, CHB and Yuexiu entered into the Deed of Agreement under which:

- (a) Yuexiu has agreed to pay CHB the sum of HK\$100 million by way of compensation for any failure of the Partial Offer if:
 - (i) any PRC law, rule, regulation, governmental or regulatory body prevents the Offeror from completing the Partial Offer or from paying the Offer Price to accepting CHB Shareholders pursuant to the terms of the Partial Offer; or
 - (ii) the Partial Offer fails to complete as a result of (A) the Pre-Condition not being fulfilled by the Long Stop Date, or (B) the HKMA issuing a notice of objection under Section 70 of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), objecting to 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), Yuexiu or the Offeror becoming a majority shareholder controller of CHB under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong); and
- (b) CHB has agreed to pay Yuexiu the sum of HK\$100 million by way of compensation for any failure of the Partial Offer if the Partial Offer fails to complete as a result of either of Conditions (d) and (e) in the section headed "Conditions of the Partial Offer" above not being fulfilled.

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7. Entitlements of CHB Shareholders

Upon the Partial Offer becoming unconditional, each CHB Shareholder:

- (a) will receive a payment of HK\$35.69 in cash for every CHB Share in respect of which that CHB Shareholder validly accepts the Partial Offer and which is taken up by the Offeror under the Partial Offer (after deducting the seller's ad valorem stamp duty arising therefrom);
- (b) will receive a special interim dividend of HK\$4.5195 in cash for every CHB Share which that CHB Shareholder holds as at the Record Date (if the CHB Special Dividend becomes unconditional), whether or not that CHB Shareholder accepts the Partial Offer and, if he or she does, whether or not all of his or her CHB Shares are taken up by the Offeror under the Partial Offer; and
- (c) will have the opportunity of retaining an equity interest in CHB which will maintain its listing on the Stock Exchange following closing of the Partial Offer.

8. Other terms of the Partial Offer

Qualifying CHB Shareholders may accept the Partial Offer in respect of some or all of the CHB Shares held by them. Subject to the Partial Offer becoming unconditional in all respects: (i) if valid acceptances are received for 326,250,000 or fewer CHB Shares, all CHB Shares validly accepted will be taken up; and (ii) if valid acceptances are received for more than 326,250,000 CHB Shares, the total number of CHB Shares to be taken up by the Offeror from each Qualifying CHB Shareholder will be determined in accordance with the following formula:

$$\frac{A}{B} \times C$$

- A: 326,250,000 CHB Shares (being the maximum number of CHB Shares for which the Partial Offer is made)
- B: the total number of CHB Shares tendered by all Qualifying CHB Shareholders under the Partial Offer
- C: the number of CHB Shares tendered by the relevant individual Qualifying CHB Shareholder under the Partial Offer

As a result, it is possible that if a Qualifying CHB Shareholder tenders all his/her/its CHB Shares for acceptance under the Partial Offer, not all of such CHB Shares will be taken up. Qualifying CHB Shareholders can, however, be assured that, in the event the Partial Offer becomes unconditional in all respects, a minimum of 75% of the CHB Shares tendered for acceptance by such CHB Shareholders under the Partial Offer will be taken up.

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Fractions of CHB Shares will not be taken up under the Partial Offer and, accordingly, the number of CHB Shares that the Offeror will take up from each Qualifying CHB Shareholder in accordance with the above formula will be rounded up or down to the nearest whole number at the discretion of the Offeror.

9. Effect of accepting the Partial Offer

By validly accepting the Partial Offer, Qualifying CHB Shareholders will sell to the Offeror their tendered CHB Shares which are finally taken up by the Offeror in accordance with the formula set out in the section headed “Other terms of the Partial Offer” above free from all encumbrances and together with all rights and benefits accruing and attaching thereto as at or after the Final Closing Date including all rights to any dividend or other distributions declared, made or paid on or after the Final Closing Date (excluding the CHB Special Dividend). The Offeror will not be entitled to any dividends or other distributions declared, made or paid before the Final Closing Date, including the CHB Special Dividend, in respect of the CHB Shares which are taken up by the Offeror under the Partial Offer. Any such dividends or other distributions will be paid to the CHB Shareholders who are qualified for such dividends or distributions.

10. Procedures for acceptance

In order to accept the Partial Offer, Qualifying CHB Shareholders should complete and return the accompanying Form of Acceptance to the Share Registrar in accordance with the instructions printed in this Composite Document and on the Form of Acceptance. The instructions in this Composite Document should be read together with the instructions on the Form of Acceptance (which instructions form part of the terms of the Partial Offer).

Qualifying CHB Shareholders are required to submit the duly completed Form of Acceptance, together with the CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) for not less than the number of CHB Shares in respect of which the relevant Qualifying CHB Shareholder wishes to accept the Partial Offer, by post or by hand to the Share Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, in an envelope marked “Chong Hing Bank Limited — Partial Offer” as soon as possible after receipt of the Form of Acceptance but in any event so as to reach the Share Registrar by no later than 4:00 p.m. (Hong Kong time) on Wednesday, 5 February 2014, being the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve. Pursuant to Rule 15.3 of the Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptances for not less than 14 days thereafter. Pursuant to Rule 28.4 of the Code, if the Partial Offer has been declared unconditional as to acceptances on the First Closing Date, the Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date.

No acknowledgement of receipt of any Form of Acceptance, CHB Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any indemnity or indemnities in respect thereof) (if applicable) will be given.

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Only one Form of Acceptance will be accepted from each Qualifying CHB Shareholder by the Share Registrar. Tenders duly received will become irrevocable and cannot be withdrawn after the Partial Offer has been declared unconditional as to acceptances except in the circumstances as described in the section headed “Irrevocable acceptances” under Appendix I to this Composite Document.

11. Nominee registration of CHB Shares

To ensure equality of treatment of all Qualifying CHB Shareholders, those Qualifying CHB Shareholders who hold CHB Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of CHB Shares whose investments are registered in nominee names (including those whose interests in CHB Shares are held through CCASS) to accept the Partial Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Partial Offer.

12. Overseas CHB Shareholders

This Composite Document will not be filed under the applicable securities or equivalent legislation or rules of any jurisdiction other than Hong Kong.

Based on the Register as at the Latest Practicable Date, there were 12 overseas CHB Shareholders holding 12,712 CHB Shares, in aggregate, with registered addresses in Australia, Canada, the PRC, the United Kingdom, Japan, Macau and Panama, which are jurisdictions outside Hong Kong. The shareholding of the Excluded Shareholder represents approximately 0.00022% of the total issued share capital of CHB as at the Latest Practicable Date. The Offeror has sought legal advice from its PRC legal advisers. Based on the advice of the Offeror’s PRC legal advisers, it would be in contravention of the laws of the PRC if the Partial Offer is extended to the Excluded Shareholder. It would therefore be unduly burdensome for the Offeror to extend the Partial Offer to the Excluded Shareholder for the purpose of Note 3 to Rule 8 of the Code. Based on the advice of the Offeror’s PRC legal advisers, the Offeror will only send this Composite Document (but not the Form of Acceptance), together with the Overseas Letter, to the Excluded Shareholder for his/her information only. The Offeror has applied for a waiver pursuant to Note 3 to Rule 8 of the Code that the Partial Offer will not be made to the Excluded Shareholder in the PRC.

The Partial Offer is in respect of a company incorporated and listed in Hong Kong and is therefore subject to the procedure and disclosure requirements of laws, regulatory and rules in Hong Kong which may be different to those in other jurisdictions. The ability of CHB Shareholders who are citizens, residents or nationals of jurisdictions outside of Hong Kong to participate in the Partial Offer may be subject to the laws and regulations of the relevant jurisdictions. Such Qualifying CHB Shareholders may be prohibited from participating in the Partial Offer. It is the responsibility of each such Qualifying CHB Shareholder to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including obtaining any governmental, exchange control or other consents, or filing and registration and the payment of any transfer or other taxes due from such Qualifying CHB Shareholder in such relevant jurisdictions.

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Any acceptance of the Partial Offer by any Qualifying CHB Shareholder will be deemed to constitute a representation and warranty from such Qualifying CHB Shareholder to the Offeror and CHB that (i) all local laws and requirements in connection with such acceptance have been complied with and (ii) the Partial Offer can be accepted by such Qualifying CHB Shareholder under the laws and regulations of the relevant jurisdiction and such acceptance shall be valid and binding in accordance with all applicable laws and regulations. Qualifying CHB Shareholders should consult their professional advisers if in doubt.

13. Settlement

Provided that the Partial Offer becomes unconditional in all respects and a duly completed Form of Acceptance, accompanied by the relevant CHB Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) are received by the Share Registrar by no later than 4:00 p.m. on Wednesday, 5 February 2014, being the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve, and are in good order in all respects and in accordance with the Code, the Share Registrar will send to the relevant accepting CHB Shareholder by ordinary post, at his or her own risks, a remittance for the amount due to him or her under the Partial Offer and (if applicable) any CHB Share certificate(s) and/or any transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) (if applicable) for CHB Shares not taken up or, if applicable, CHB Share certificate(s) in respect of the balance of such CHB Shares (taking account of any scaling down of his or her acceptance, stamp duty and the fees payable to the Share Registrar in respect of lost or unavailable CHB Share certificates) in accordance with the authority and provisions contained in the Form of Acceptance as soon as possible but in any event within seven business days (as defined in the Code) following the Final Closing Date.

Settlement of the consideration to which any accepting CHB Shareholder is entitled under the Partial Offer will be implemented in full in accordance with the terms of the Partial Offer (save with respect to payment of seller's ad valorem stamp duty) without regard to any lien, right of set-off, counterclaim, or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting CHB Shareholder. No fractions of a cent will be payable and the amount of cash consideration payable to an accepting CHB Shareholder will be rounded up to the nearest cent.

If the Partial Offer does not become unconditional in all respects, the CHB Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities in respect thereof) (as the case may be) will be returned and/or sent to each accepting CHB Shareholder (by ordinary post at his or her own risk) as soon as possible but in any event within 10 days following the lapse of the Partial Offer. Where such accepting CHB Shareholder has sent one or more transfer receipt(s) and in the meantime one or more CHB Share certificate(s) have been collected on that accepting CHB Shareholder's behalf in respect thereof, that accepting CHB Shareholder will be sent (by ordinary post at his or her own risk) such CHB Share certificate(s) in lieu of the transfer receipt(s).

If the CHB Shares tendered by an accepting CHB Shareholder have not been taken up by the Offeror in full, the CHB Share certificate(s) or transfer receipt(s) or other document(s) of title (and/or any indemnity or indemnities in respect thereof) (as the case may be) in respect of the balance of such CHB Shares or a replaced certificate therefor will be returned or sent to him or her by ordinary post at his or her own risk as soon as possible but in any event within 10 days following the Final Closing Date.

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14. Odd lots

Qualifying CHB Shareholders should note that acceptance of the Partial Offer may result in their holding odd lots of CHB Shares. Qualifying CHB Shareholders should note that acceptance of the Partial Offer may result in their holding odd lots of CHB Shares. Accordingly, Computershare Hong Kong Investor Services Limited whose address is at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (contact person: Ms. Fiona Chu; telephone number: +852 2862 8564) has been appointed as the designated broker to match sales and purchases of odd lot holdings of CHB Shares in the market for a period of six weeks following the closing of the Partial Offer to enable such Qualifying CHB Shareholders to dispose of their odd lots or to top up their odd lots to whole board lots of 1,000 CHB Shares. Qualifying CHB Shareholders should note that the matching of odd lots is not guaranteed.

15. Hong Kong stamp duty

Seller's ad valorem stamp duty at the rate of 0.1% of the value of the consideration arising on acceptance of the Partial Offer will be payable by the Qualifying CHB Shareholders who accept the Partial Offer. The relevant amount of stamp duty payable by the Qualifying CHB Shareholders will be deducted from the consideration payable to the Qualifying CHB Shareholders under the Partial Offer. The Offeror will bear its own portion of buyer's ad valorem stamp duty at the rate of 0.1% of the consideration payable in respect of acceptances of the Partial Offer and will be responsible to account to the Stamp Office of Hong Kong for all the stamp duty payable for the sale and purchase of the CHB Shares which are validly tendered for acceptance under the Partial Offer.

16. Consent from the Executive

Pursuant to Rule 28.1 of the Code, the Executive has consented to the Offeror making the Partial Offer.

17. Tax implications

Qualifying CHB Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Partial Offer. It is emphasized that none of Yuexiu, the Offeror, CHB, LCHI and their ultimate beneficial owners and parties acting in concert with any of them, Nomura, UBS, the Share Registrar or any of their respective directors or professional advisers or any persons involved in the Partial Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the Partial Offer.

18. Information on Yuexiu and the Offeror

The Offeror is an investment holding company incorporated in Hong Kong with limited liability, which is wholly owned by Yuexiu, a limited company incorporated in Hong Kong and a wholly owned subsidiary of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), which is a State-owned limited liability company incorporated in the PRC beneficially wholly owned by the

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GMPG. Yuexiu is the principal investment vehicle of GMPG in Hong Kong and is principally engaged in three core businesses: real estate business, transport and infrastructure businesses and finance and securities businesses. The principal business activity of the Offeror is the holding of its investment to be made in CHB.

19. Reasons for the Partial Offer

Hong Kong is an important international financial centre and is one of the largest banking centres in the world. Hong Kong is known for its international and developed banking industry which is supported by a well-developed common-law based legal system. In recent years, there has been growing demand for PRC mainland-Hong Kong cross-border financial services which has led to the integration of financial institutions in the PRC and in Hong Kong. The Offeror believes that this trend is mainly driven by factors such as greater cooperation between Hong Kong and the PRC's economy, the internationalisation of the Renminbi, and Hong Kong's development as an offshore Renminbi centre.

廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*) is one of the largest State-owned enterprises in Guangzhou in terms of total assets. Since its establishment in the 1980s in Hong Kong, Yuexiu has principally engaged in three core businesses: real estate business, transport and infrastructure businesses and finance and securities businesses. Yuexiu and the Offeror are of the view that CHB has developed well in the past 65 years and its extensive range of financial services and products, quality credit assets and sound corporate governance have allowed it to become a reputable brand in the Hong Kong banking industry. Yuexiu and the Offeror believe that CHB represents an important opportunity to further develop the Yuexiu Group's financial services expertise and the Partial Offer will enable them to take advantage of CHB's financial services licences, customer network, comprehensive portfolio of products and listing status to further develop its financial services platform in Hong Kong and elsewhere. The Offeror's directors believe that the acquisition of CHB would help Yuexiu to enhance its recognition in the market, and build its market position as an integrated financial service provider in the Pearl River Delta Region. Yuexiu's directors also believe that a successful integration of CHB into the Yuexiu Group would serve as an important milestone for future financial cooperation between enterprises in the Guangdong province in the PRC and Hong Kong.

The Offeror has decided to proceed with the Partial Offer instead of a general offer because it intends to maintain the listing status of CHB, for which 25% or more of the CHB Shares in issue will need to be held by the public in accordance with the Listing Rules. Accordingly, the maximum percentage of CHB Shares in issue that the Offeror would acquire under the Partial Offer would be 75%.

20. Intentions of the Offeror with regard to CHB

The Offeror is committed to the stability of CHB's business and operations after closing of the Partial Offer. Given CHB's strong and established brand in Hong Kong, it is the Offeror's intention to maintain the branding and the name of "Chong Hing", "創興" and "创兴" for a certain period of time

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to benefit from the strong reputation that CHB has developed in the Hong Kong market over the past 65 years. At the same time, with the support of the Closer Economic Partnership Arrangement between the PRC and Hong Kong, the Offeror will utilise its customer resources in the PRC market to enhance CHB's business in the PRC market.

It is expected that there will be changes in the board composition of CHB at or after the earliest time permitted under the Code or by the SFC. Any such changes will only take effect in accordance with the applicable laws and regulations including the Code and the Listing Rules and in compliance with any requirements of the HKMA and any other relevant authorities.

While it is the Offeror's intention that the dividend policy of CHB will remain unchanged after closing of the Partial Offer, any dividends will be determined by the then CHB Directors according to the then prevailing circumstances taking into account CHB's operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditures and future development requirements, the requirements of the HKMA, if applicable, the CHB Shareholders' interests and other factors which they may deem relevant at such time. Any future declarations of dividends after closing of the Partial Offer may or may not reflect CHB's historical declarations of dividends and will be at the absolute discretion of the then CHB Directors. There is no assurance that dividends of any amount will be declared or distributed in any year.

After closing of the Partial Offer, Yuexiu and the Offeror will further review the businesses of CHB, and determine what changes, if any, would be necessary, appropriate or desirable, long term and short term, in order to best organise and optimise the businesses and operations of CHB and to integrate the same within the Yuexiu Group. The Offeror intends to maintain the listing status of CHB following closing of the Partial Offer and expects CHB to continue to be subject to supervision and guidance from the HKMA, the SFC and the Stock Exchange.

Following closing of the Partial Offer, the Offeror wishes to explore its options and make its decision with regard the location of the head office of CHB, but this may take some time to implement. The Offeror will therefore need to retain the head office of CHB at the Property for at least a transitional period after the closing of the Partial Offer. The Property is currently occupied by LCHI and CHB (and their respective subsidiaries). As a result of the Lease, a tenancy will be secured for the Property (other than those parts which are intended to be occupied by the LCHI Group) upon completion of the Property Transfer. Apart from the Property Agreement, there is currently no other intention to redeploy any of CHB's fixed assets.

The Offeror has committed that for a period of 24 months from the Final Closing Date, CHB will:

- (a) not terminate the employment of any persons who are employees (excluding employees stationed or working in the U.S. branch) of CHB as at the Final Closing Date (each an "**Employee**") save where
 - (i) CHB has grounds to dismiss an Employee without notice pursuant to section 9 of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong);
 - (ii) an Employee is in material breach of any term

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of his or her employment contract with CHB; or (iii) the employment of an Employee is terminated by reason of retirement; (b) ensure that employee benefits for all Employees (whether or not they form part of the terms of the Employees' employment) will, in material respects, continue to be no less favourable to the Employees than they were immediately prior to the Final Closing Date in general; and (c) honour the terms of each Employee's employment contract, including any extensions of employment contracts which have been entered into between CHB and any Employee before the date of the LCHI Irrevocable Undertaking, even where that Employee has passed normal retirement age.

The Offeror has committed that for a period of 12 months from the Final Closing Date, CHB will not: (a) allot, issue, offer to allot or issue, grant any option, right or warrant to subscribe (either conditionally or unconditionally, or directly or indirectly, or otherwise) any share in CHB or any interests therein or any securities convertible into any such shares or interests (save pursuant to any obligations existing before the Final Closing Date, and save for any issue of share options pursuant to any share option scheme adopted by CHB and any issue of CHB Shares pursuant to exercise of any share options) ("**Share Issue**"); or (b) announce any intention to enter into or effect any such transaction described in (a) above in this paragraph, unless (i) such Share Issue is required by the HKMA or it is reasonably expected by the Offeror or CHB that such Share Issue would be required by the HKMA within the 12-month period or would otherwise be necessary for complying with such requirement or the rules, guidance and requirements of the HKMA; and (ii) no alternative means of satisfying such requirement or the rules, guidance and requirements of the HKMA are available.

Subject to the statements relating to employees and the future raising of capital as set out above in this section, the Offeror reserves the right to make any changes that it deems necessary or appropriate to the CHB's businesses and operations to generate maximum synergy and optimize the business and operations of CHB and to best integrate the same within the Yuexiu Group.

The Offeror intends to maintain the listing status of CHB following closing of the Partial Offer. Upon closing of the Partial Offer, CHB may continue to have one or more substantial shareholders (in addition to the Offeror), depending on the extent to which the Partial Offer is accepted by the CHB Shareholders. Since substantial shareholders of CHB are connected persons of CHB under the Listing Rules, their CHB Shares will not be regarded as part of the public float for the purposes of CHB's compliance with the public float requirement under Rule 8.08 of the Listing Rules. In other words, if, after LCH Estate ceases to be a substantial shareholder and a connected person of CHB after closing of the Partial Offer pursuant to the LCHI Irrevocable Undertaking (as disclosed in the paragraph headed "Non-compete and other undertakings" under the section headed "LCHI Irrevocable Undertaking" below), the number of CHB Shares held by the public after closing of the Partial Offer still represents less than 25% of the CHB Shares, the Offeror will, after closing of the Partial Offer, take appropriate steps to ensure that not less than 25% of the CHB Shares will be held by the public in compliance with the Listing Rules, which may include the Offeror or another connected person of CHB selling some of its CHB Shares. Based on such understanding, the directors of the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CHB Shares. The Offeror does not intend to avail itself of any powers of compulsory acquisition.

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The Stock Exchange has stated that if, at the close of the Partial Offer, less than the minimum prescribed percentage applicable to CHB, being 25% of the issued CHB Shares, are held by the public, or if the Stock Exchange believes that:-

- a false market exists or may exist in the trading of the CHB Shares; or
- that there are insufficient CHB Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the CHB Shares.

21. Responsibility for documents

All communications, notices, Forms of Acceptance, CHB Share certificates, transfer receipts, other documents of title (and/or any indemnity or indemnities in respect thereof) and remittances to be delivered or sent by, to or from any CHB Shareholders will be delivered or sent by, to and from them, or their designated agents, at their own risks and none of Yuexiu, the Offeror, CHB, LCHI and their ultimate beneficial owners and parties acting in concert with any of them, Nomura, UBS, the Share Registrar or any of their respective directors or professional advisers or any other persons involved in the Partial Offer accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

LCHI IRREVOCABLE UNDERTAKING

On 25 October 2013, Yuexiu entered into the LCHI Irrevocable Undertaking with, among others, LCH Estate, LCHI (which holds the LCH Estate IU Shares through LCH Estate) and Alba, pursuant to which each of LCH Estate, LCHI and Alba agreed to tender, or procure the tender of, all of the CHB Shares held directly or indirectly by it (being 218,359,628 CHB Shares (representing 50.20% of the CHB Shares in issue as at the Latest Practicable Date) in the case of LCH Estate and LCHI and 2,263,211 CHB Shares (representing 0.52% of the CHB Shares in issue as at the Latest Practicable Date) in the case of Alba) for acceptance under the Partial Offer.

The principal terms of the LCHI Irrevocable Undertaking are set out below:

Date: 25 October 2013

Parties: (1) Yuexiu; (2) LCHI; (3) LCH Estate; (4) L. Holdings; and (5) Alba.

Irrevocable undertaking to accept the Partial Offer:

On 25 October 2013, LCHI, LCH Estate, L. Holdings and Alba entered into the LCHI Irrevocable Undertaking with Yuexiu, under which, among other things:

- (a) LCHI and LCH Estate have irrevocably undertaken, jointly and severally, to Yuexiu that the Partial Offer will be accepted by LCH Estate in respect of all of the LCH Estate IU Shares not later than three business days (as defined in the Code) after the despatch date of the Composite Document and that LCH Estate will not withdraw such acceptance;

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- (b) Alba has irrevocably undertaken to Yuexiu that the Partial Offer will be accepted by Alba in respect of all of the CHB Shares held by it not later than three business days (as defined in the Code) after the despatch date of the Composite Document and that Alba will not withdraw such acceptance; and
- (c) each of L. Holdings and Alba, as a shareholder of LCHI, has irrevocably undertaken to exercise its voting rights in respect of all of the LCHI Shares held by it to vote in favour of the resolutions at the LCHI EGM to approve the IU Commitment and the Property Agreement.

Consideration:

LCHI and LCH Estate have irrevocably undertaken to Yuexiu that the Partial Offer will be accepted by LCH Estate, and Alba has irrevocably undertaken to Yuexiu that the Partial Offer will be accepted by Alba, in respect of their respective IU Shares at the Offer Price of HK\$35.69 per IU Share. Such acceptance shall not be withdrawn.

If the Partial Offer becomes unconditional in all respects, LCH Estate will, pursuant to the LCHI Irrevocable Undertaking, sell at least 163,769,721 CHB Shares (being 75% of the LCH Estate IU Shares) and up to 218,359,628 CHB Shares (being all of the LCH Estate IU Shares), depending on the overall acceptances of the Partial Offer. The total consideration for such sale will accordingly be not less than approximately HK\$5,845 million and up to approximately HK\$7,793 million.

No withdrawal:

Each of LCH Estate and Alba has irrevocably undertaken that it will not withdraw any acceptance of the Partial Offer in respect of its IU Shares.

Restrictive covenants:

Each of LCHI and LCH Estate has undertaken to procure, among others, that until the Final Closing Date, the CHB Group will carry on business in the normal course of business and no member of the CHB Group shall do, undertake or engage in certain restricted activities, other than (a) in connection with the Partial Offer or the various transactions contemplated under the Announcement; (b) as required under laws or regulations or by any regulatory body; or (c) as have been notified to the Offeror in writing specifically on or prior to the date of the LCHI Irrevocable Undertaking. As at the date of the LCHI Undertaking, no such restricted activity has been notified to the Offeror pursuant to paragraph (c) above.

Representations and warranties:

Each of LCHI and LCH Estate has warranted, jointly and severally, to Yuexiu that insofar as it is aware, all information disclosed by CHB on the website of the Stock Exchange over the 6 month period immediately preceding the date of the LCHI Irrevocable Undertaking was true, accurate and not misleading in all material respects, with reference to the facts and circumstances existing at the time

LETTER FROM NOMURA

at which the relevant information was disclosed. Any liability of LCHI or LCH Estate under this warranty is subject to various limitations, including: (i) a cap of HK\$200 million on the aggregate liability of LCHI and LCH Estate; and (ii) a time limit in respect of the notification of warranty claims.

Non-compete and other undertakings:

LCHI and LCH Estate have given undertakings (in respect of itself and the members of the LCHI Group (excluding the CHB Group)), among other things, not to be engaged or directly or indirectly interested in carrying on a business of commercial banking and/or general retail banking and/or insurance in Hong Kong, and not to solicit any officers, managers, consultant or employee of the CHB Group, for a period of one year after the Final Closing Date subject to certain limited exceptions.

Under the LCHI Irrevocable Undertaking, if LCH Estate continues to be a substantial shareholder by virtue of the remaining CHB Shares held by LCH Estate, or is otherwise deemed to be a connected person (as defined in Chapter 1 of the Listing Rules) of CHB, immediately after the Final Closing Date, L. Holdings and Alba have undertaken to procure LCHI to reduce, and LCHI has agreed to reduce, the residual shareholding of LCH Estate in CHB by way of the LCHI Distribution in Specie or by the taking of such other steps as may be satisfactory to the Stock Exchange so that LCH Estate will cease to be a substantial shareholder and a connected person (as defined in Chapter 1 of the Listing Rules) of CHB for the purpose of CHB's public float requirement under the Listing Rules. The LCHI Distribution in Specie is therefore a possibility only and there is no certainty that it would be declared.

Termination:

The LCHI Irrevocable Undertaking will terminate and the parties' obligations thereunder will cease on the earlier of any of the following occurring:

- (a) if the Partial Offer lapses or is withdrawn in circumstances permitted under the Code; and
- (b) if the Pre-Condition has not been fulfilled by the Long Stop Date.

As set out in the section headed "Introduction" above, Yuexiu, the Offeror and CHB jointly announced on 9 January 2014 that the Pre-Condition had been satisfied.

For further details of the LCHI Irrevocable Undertaking, please refer to Part B of the section headed "Letter from the Board" in the LCHI Circular. On 20 December 2013, LCHI announced that the IU Commitment was approved by the LCHI Shareholders at the LCHI EGM.

PROPERTY AGREEMENT

On 25 October 2013, CHB entered into the Property Agreement with LCHI, a controlling shareholder of CHB, for the Property Transfer and the Lease.

LETTER FROM NOMURA

Completion of the Property Transfer is conditional upon the receipt by LCH Estate of payment in full of the consideration for the LCH Estate IU Shares taken up by the Offeror in accordance with the terms of the Partial Offer. Such condition may not be waived without the agreement of both LCHI and CHB. Neither LCHI nor CHB intends to waive such condition. Completion of the Property Transfer shall take place on the day falling three business days after the date on which such condition is satisfied.

1. Property Transfer

The principal terms of the Property Transfer are set out below:

Parties: (1) CHB (as vendor); and (2) LCHI (as purchaser).

Subject matter of the Property Transfer:

The Property, being Chong Hing Bank Centre at No. 24 Des Voeux Road Central, Hong Kong, is an office tower with a gross floor area of approximately 108,141 square feet.

The Property Transfer Consideration:

The Property Transfer Consideration is HK\$2,230 million, which was determined after arm's length negotiations between the parties with reference to the valuation of HK\$2,230 million as at 25 October 2013 as determined by Vigers Appraisal and Consulting Limited, an independent property valuer. Such valuation report is included in the CHB Circular and the LCHI Circular.

The Property Transfer Consideration shall be paid in cash by LCHI to CHB at completion of the Property Transfer. The stamp duty in respect of the Property Transfer, which is expected to be approximately HK\$189.6 million, will be borne by LCHI. It is intended that the payment of the Property Transfer Consideration will be funded by the net proceeds of the sale of the LCH Estate IU Shares under the Partial Offer.

2. Lease

The principal terms of the Lease are set out below:

Parties: (1) LCHI (as lessor); and (2) CHB (as lessee).

Subject matter of the Lease:

LCHI (as lessor) has agreed to lease to CHB (as lessee) ground to 19th floors (both inclusive) and the 26th floor (the designation of 4th, 14th and 24th floors being omitted) of the Property, which are currently used as the head office of CHB.

During the term of the Lease, CHB (as licensee) shall be entitled to use (i) the 27th floor of the Property on even calendar days and (ii) the 28th floor of the Property on odd calendar days.

LETTER FROM NOMURA

Term:

The Lease will be for a term of five years from completion of the Property Transfer.

Under Rule 14A.35 of the Listing Rules, the period for an agreement in respect of a continuing connected transaction must not exceed 3 years except in special circumstances. Special circumstances are limited to cases where the nature of the transaction requires the contract to be of a duration longer than 3 years.

CHB believes that the nature of the Lease, being a lease of the premises being used for its head office operations, requires the Lease to be of a duration of longer than 3 years because of (i) the difficulty for a bank in securing suitable alternative premises which satisfies the stringent security requirements necessary for the safe operation of a bank upon the expiry of an existing lease; (ii) the difficulty for a bank in securing suitable alternative premises, particularly in the central business district, of a size large enough to accommodate a bank's core operations in one place for operational efficiency upon the expiry of an existing lease; and (iii) the high costs associated with relocating the head office of a bank in view of the specialised and sophisticated information technology infrastructure necessary for its operations.

The CHB Independent Financial Adviser has confirmed in the section headed "Letter from the Independent Financial Adviser" in the CHB Circular dated 4 December 2013 that it is normal business practice for contracts of this type to be of such a duration.

Monthly rent:

The monthly rent payable under the Lease during its term will be HK\$5,660,000, which is exclusive of service charge, government rent and rates and outgoings of a non-capital and recurring nature.

The rent was determined after arm's length negotiations between the parties with reference to the location and condition of the Property and the current market rent. CHB intends to fund its payment of the rent payable under the Lease by its internal resources.

Usage of the leased premises:

CHB will use the leased premises under the Lease as its head office for the operation of its general banking and financial services businesses.

Option to renew:

CHB has the option to renew the Lease for a further term of five years.

Rent during the renewed term:

If CHB exercises its option to renew the term of the Lease, the monthly rent during the renewed term will be at prevailing open market rent.

LETTER FROM NOMURA

Stamp duty:

The stamp duty in respect of the Lease will be borne by LCHI and CHB in equal shares.

Annual cap for the Lease:

The CHB Directors estimate, by reference to the fixed monthly rent during the five year term of the Lease, that the annual rentals payable to LCHI under the Lease during its five year term will not exceed HK\$67.92 million.

For further details of the Property Agreement, please refer to Part C of the section headed “Letter from the Board” in the CHB Circular and Part C of the section headed “Letter from the Board” in the LCHI Circular.

As the Property Agreement was entered into during the Offer Period of the Partial Offer and as the benefit of the Property Agreement was not capable of being extended to all CHB Shareholders, the Property Agreement constitutes a special deal in relation to the Partial Offer under Note 4 to Rule 25 of the Code. An application has been made by CHB to the Executive for, and the Executive has granted, consent to proceed with the Property Agreement. Such consent is subject to the approval of the Property Agreement by the Independent CHB Shareholders by way of poll at the CHB EGM. The CHB Independent Financial Adviser has stated in the CHB Circular its opinion that the terms of the Property Agreement are fair and reasonable, on normal commercial terms and in the interests of CHB and the CHB Shareholders as a whole. On 20 December 2013, CHB announced that the Property Agreement was approved by the Independent CHB Shareholders at the CHB EGM and LCHI announced that the Property Agreement was approved by the LCHI Shareholders at the LCHI EGM.

CHB SPECIAL DIVIDEND

The CHB Board declared the CHB Special Dividend at its meeting held on 18 December 2013. Conditional on completion of the Property Transfer, CHB will distribute the proceeds of the Property Transfer less the unaudited carrying value of the Property as at 30 June 2013 (such unaudited carrying value being approximately HK\$264 million) by way of the CHB Special Dividend to all CHB Shareholders registered as such on the Record Date on the following basis:

For each CHB Share held HK\$4.5195 in cash

As the Record Date will be the date immediately prior to the Final Closing Date, (a) CHB Shareholders who accept the Partial Offer will continue to receive the CHB Special Dividend in respect of the CHB Shares held by them on the Record Date, and (b) the Offeror will not be entitled to the CHB Special Dividend in respect of any CHB Shares which are validly accepted and taken up under the Partial Offer. In other words, acceptance of the Partial Offer would not disentitle a CHB Shareholder from receiving the CHB Special Dividend.

Any person who purchases CHB Shares intending to become entitled to the CHB Special Dividend is reminded to ensure that his or her name is registered on the Register on or before the Record Date.

LETTER FROM NOMURA

ADDITIONAL INFORMATION

Your attention is drawn to the letter from the CHB Board on pages 31 to 39, the letter from the CHB Code Independent Board Committee on pages 40 to 41 and the letter from the CHB Independent Financial Adviser on pages 42 to 70 of this Composite Document in relation to their respective recommendations and advice with respect to the Partial Offer.

Your attention is also drawn to the additional information set out in the appendices to this Composite Document.

Yours faithfully
For and on behalf of
Nomura International (Hong Kong) Limited
Tung Hong Erik
Managing Director
Head of China Investment Banking

LETTER FROM THE CHB BOARD



創興銀行有限公司
Chong Hing Bank Limited

(a Hong Kong-incorporated limited liability company)

(Stock Code: 1111)

Executive Directors:

Dr. Liu Lit Mo, LLD, MBE, J.P.

(Chairman)

Mr. Liu Lit Chi

(Deputy Chairman and Managing Director)

Mr. Lau Wai Man

(Chief Executive Officer)

Mr. Don Tit Shing Liu

(Deputy Chief Executive Officer)

Mr. Wilfred Chun Ning Liu

Registered Office:

Ground Floor

Chong Hing Bank Centre

24 Des Voeux Road Central

Hong Kong

Non-executive Directors:

Mr. He Jiale

Mr. Hidekazu Horikoshi

Mr. Christopher Kwun Shing Liu

Mr. Alfred Cheuk Yu Chow, BBS, J.P.

Mr. Meng Qinghui

Independent Non-executive Directors:

Dr. Robin Yau Hing Chan, GBS, LLD, J.P.

Mr. Timothy George Freshwater

Mr. Wanchai Chiranakhorn

Mr. Cheng Yuk Wo

Mr. Andrew Chiu Cheung Ma

15 January 2014

To the CHB Shareholders

Dear Sir or Madam,

**VOLUNTARY CASH PARTIAL OFFER BY NOMURA
ON BEHALF OF YUEXIU FINANCIAL HOLDINGS LIMITED TO ACQUIRE
A MAXIMUM OF 326,250,000 CHB SHARES IN THE CAPITAL OF
CHONG HING BANK LIMITED (REPRESENTING 75% OF ITS ISSUED SHARE
CAPITAL) FROM QUALIFYING CHB SHAREHOLDERS**

On 25 October 2013, Yuexiu, the Offeror, CHB and LCHI jointly announced that Nomura would, on behalf of the Offeror, make a pre-conditional voluntary cash partial offer to acquire a maximum

LETTER FROM THE CHB BOARD

of 326,250,000 CHB Shares (representing 75 per cent. of the CHB Shares in issue as at the date of the Announcement) from the Qualifying CHB Shareholders at the Offer Price of HK\$35.69 per CHB Share. In addition, following the Partial Offer becoming unconditional, each CHB Shareholder registered as such on the Record Date will receive a special interim dividend of HK\$4.5195 in cash for every CHB Share which the CHB Shareholder then holds (if the CHB Special Dividend becomes unconditional), whether or not that CHB Shareholder accepts the Partial Offer and, if he does, whether or not all of his CHB Shares are taken up by the Offeror under the Partial Offer.

The making of the Partial Offer was subject to the satisfaction of the Pre-Condition, being the granting of approval by the HKMA for each of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), Yuexiu and the Offeror to become a majority shareholder controller of CHB under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong). On 9 January 2014, Yuexiu, the Offeror and CHB jointly announced that the Pre-Condition has been satisfied.

The purpose of the Composite Document (of which this letter forms part) is to provide you with, among other things, (i) further information relating to each of the CHB Group, Yuexiu, the Offeror and the Partial Offer, (ii) the letter from Nomura containing details of the Partial Offer; (iii) the letter from the CHB Code Independent Board Committee containing its recommendation and advice to the Independent CHB Shareholders in respect of the Partial Offer and acceptance of the Partial Offer; and (iii) the letter from Somerley, the CHB Independent Financial Adviser, containing its advice to the CHB Code Independent Board Committee on whether the terms of the Partial Offer are fair and reasonable so far as the Independent CHB Shareholders are concerned and on acceptance in respect of the Partial Offer.

Unless the context otherwise requires, terms defined in the Composite Document shall have the same meanings when used in this letter.

1. CHB CODE INDEPENDENT BOARD COMMITTEE AND CHB INDEPENDENT FINANCIAL ADVISER

In accordance with Rules 2.1 and 2.8 of the Takeovers Code, the CHB Code Independent Board Committee comprising all the non-executive CHB Directors (other than Mr. Christopher Kwun Shing Liu) and all the independent non-executive CHB Directors was established to advise the Independent CHB Shareholders as to whether the terms of the Partial Offer are fair and reasonable and as to acceptance of the Partial Offer. Mr. Christopher Kwun Shing Liu, being an executive director of LCHI, is considered to be materially interested in the Property Agreement and is therefore excluded from the CHB Code Independent Board Committee.

Somerley has, with the approval of the CHB Code Independent Board Committee, been appointed as the CHB Independent Financial Adviser to advise the CHB Code Independent Board Committee in connection with the Partial Offer.

Somerley has advised the CHB Code Independent Board Committee that it considers the terms of the Partial Offer (including the Offer Price) to be fair and reasonable so far as the Independent CHB

* *for identification purpose only*

LETTER FROM THE CHB BOARD

Shareholders are concerned, and accordingly, it recommends the CHB Code Independent Board Committee to advise the Independent CHB Shareholders to accept the Partial Offer. The CHB Code Independent Board Committee, having been so advised, considers the terms of the Partial Offer (including the Offer Price) to be fair and reasonable so far as the Independent CHB Shareholders are concerned, and accordingly, recommends the Independent CHB Shareholders to accept the Partial Offer.

The full texts of the letter from the CHB Code Independent Board Committee addressed to the Independent CHB Shareholders and the letter from Somerley addressed to the CHB Code Independent Board Committee are set out in the Composite Document. You are advised to read both letters and the additional information contained in the appendices to the Composite Document carefully before taking any action in respect of the Partial Offer.

2. THE PARTIAL OFFER

Nomura is, on behalf of the Offeror, making the Partial Offer on the following basis:

For each CHB Share HK\$35.69 in cash

2.1 Conditions of the Partial Offer

The Partial Offer was subject to the fulfilment of the following Conditions:

- (a) valid acceptances of the Partial Offer being received in respect of a minimum of 217,500,001 CHB Shares (representing 50 per cent. of the CHB Shares in issue as at the date of the Announcement plus one CHB Share) by 4:00 p.m. on or prior to the First Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve), provided that the Offeror shall purchase as many CHB Shares as are tendered by Qualifying CHB Shareholders up to a maximum of 326,250,000 CHB Shares (representing 75 per cent. of the CHB Shares in issue as at the date of the Announcement);
- (b) consent from the Executive in respect of the Partial Offer pursuant to Rule 28.1 of the Code;
- (c) consent from the Executive in respect of the Property Agreement as a special deal in relation to the Partial Offer;
- (d) approval by the LCHI Shareholders of the IU Commitment and the Property Agreement in accordance with the Listing Rules; and
- (e) approval by the Independent CHB Shareholders of the Property Agreement in accordance with the Listing Rules and the Code.

None of the Conditions may be waived by the Offeror.

LETTER FROM THE CHB BOARD

As at the Latest Practicable Date, Conditions (b), (c), (d) and (e) have been fulfilled, leaving only the acceptance condition under paragraph 2.1(a) above to be fulfilled before the Partial Offer can be declared or will become unconditional in all respects.

LCHI and LCH Estate have irrevocably undertaken, jointly and severally, to Yuexiu that the Partial Offer will be accepted by LCH Estate in respect of all of the LCH Estate IU Shares not later than three business days (as defined in the Code) after the despatch date of the Composite Document. If the Partial Offer becomes unconditional in all respects, LCH Estate will, pursuant to the LCHI Irrevocable Undertaking, sell at least 163,769,721 CHB Shares (being 75 per cent. of the LCH Estate IU Shares) and up to 218,359,628 CHB Shares (being all of the LCH Estate IU Shares). The percentage of the share capital of CHB made up by all of the LCH Estate IU Shares is 50.2 per cent. Therefore, once LCH Estate tenders its acceptance of the Partial Offer in respect of all of the LCH Estate IU Shares under the Irrevocable Undertaking, the acceptance condition set out at paragraph 2.1(a) above will have been met. The Partial Offer is therefore expected to become unconditional prior to the 7th day after the date of the Composite Document.

Pursuant to Rule 15.3 of the Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptances for not less than 14 days thereafter. Accordingly, if the Partial Offer is declared unconditional in all respects on or before the 7th day after the date of the Composite Document, then the Final Closing Date would be on (but no earlier than) the First Closing Date, being 21 days after the despatch date of the Composite Document.

Pursuant to Rule 28.4 of the Code, if the Partial Offer has been declared unconditional as to acceptances on the First Closing Date, the Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date.

Under Rule 28.5 of the Code, a partial offer which could result in the offeror holding 30 per cent. or more of the voting rights of a company must normally be conditional on the approval by shareholders holding over 50 per cent. of the voting rights not held by the offeror and its parties acting in concert with it by means of signifying their approval on a separate box on the form of acceptance. The Offeror has applied for, and the Executive has granted, a waiver from this requirement on the basis that: (i) LCH Estate, holding greater than 50 per cent. of the voting rights of CHB, indicates its approval under Rule 28.5 (which approval was given in the Announcement); and (ii) LCH Estate confirms that it is not acting in concert with the Offeror (which confirmation was given in the Announcement). Accordingly, the Partial Offer is not conditional upon satisfaction of the requirement under Rule 28.5 of the Code.

WARNING: The Partial Offer may or may not become unconditional and will lapse if it does not become unconditional. Completion of the Partial Offer is therefore a possibility only. CHB Shareholders and prospective investors are advised to exercise caution when dealing in the securities of CHB.

LETTER FROM THE CHB BOARD

2.2 Comparisons of value

	Share price of CHB <i>HK\$</i>	Premium/ (Discount) of the Offer Price to the share price %
Closing price as quoted on the Stock Exchange on 6 August 2013, being one day immediately prior to the announcement of 7 August 2013 issued jointly by LCHI and CHB in response to media reports regarding a possible disposal of interests in CHB	22.45	59.0
Average closing price as quoted on the Stock Exchange for the 120 trading days immediately prior to and including the Last Trading Date	24.84	43.7
Average closing price as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date	26.56	34.4
Average closing price as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date	29.46	21.2
Average closing price as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date	32.90	8.5
Average closing price as quoted on the Stock Exchange for the 10 trading days immediately prior to and including the Last Trading Date	34.47	3.5
Average closing price as quoted on the Stock Exchange for the 5 trading days immediately prior to and including the Last Trading Date	35.34	1.0
Closing price as quoted on the Stock Exchange on the Last Trading Date	37.40	(4.6)
Closing price as quoted on the Stock Exchange on the Latest Practicable Date	35.40	0.8

LETTER FROM THE CHB BOARD

2.3 Highest and lowest closing prices of CHB Shares

During the Relevant Period, the highest closing price of CHB Shares as quoted on the Stock Exchange was HK\$37.40 per CHB Share on 23 October 2013, and the lowest closing price of CHB Shares as quoted on the Stock Exchange was HK\$15.58 per CHB Share on 4 March 2013.

2.4 Total consideration under the Partial Offer

As at the Latest Practicable Date, there were 435,000,000 CHB Shares in issue. The Partial Offer, based on the Offer Price of HK\$35.69 per CHB Share, is valued at: (i) approximately HK\$7,763 million assuming valid acceptances of the Partial Offer are received in respect of 217,500,001 CHB Shares; and (ii) approximately HK\$11,644 million assuming valid acceptances of the Partial Offer are received in respect of 326,250,000 CHB Shares. On the basis of the Offer Price of HK\$35.69 per CHB Share, the entire issued share capital of CHB is valued at approximately HK\$15,525 million.

3. CHB SPECIAL DIVIDEND

The CHB Board declared the CHB Special Dividend at its meeting held on 18 December 2013. Conditional on completion of the Property Transfer, CHB will distribute the proceeds of the Property Transfer less the unaudited carrying value of the Property as at 30 June 2013 (such unaudited carrying value being approximately HK\$264 million) by way of the CHB Special Dividend to all CHB Shareholders registered as such on the Record Date on the following basis:

For each CHB Share held HK\$4.5195 in cash

As the Record Date will be the date immediately prior to the Final Closing Date, (a) CHB Shareholders who accept the Partial Offer will continue to receive the CHB Special Dividend in respect of the CHB Shares held by them on the Record Date, and (b) the Offeror will not be entitled to the CHB Special Dividend in respect of any CHB Shares which are validly accepted and taken up under the Partial Offer. In other words, acceptance of the Partial Offer would not disentitle a CHB Shareholder from receiving the CHB Special Dividend.

Any person who purchases CHB Shares intending to become entitled to the CHB Special Dividend is reminded to ensure that his or her name is registered on the Register on or before the Record Date.

4. ENTITLEMENTS OF CHB SHAREHOLDERS

Accordingly, upon the Partial Offer becoming unconditional, each CHB Shareholder:

- (a) will receive a payment of HK\$35.69 in cash for every CHB Share in respect of which that CHB Shareholder validly accepts the Partial Offer and which is taken up by the Offeror under the Partial Offer (after deducting the seller's ad valorem stamp duty arising therefrom);

LETTER FROM THE CHB BOARD

- (b) will receive a special interim dividend of HK\$4.5195 in cash for every CHB Share which that CHB Shareholder holds as at the Record Date (if the CHB Special Dividend becomes unconditional), whether or not that CHB Shareholder accepts the Partial Offer and, if he or she does, whether or not all of his or her CHB Shares are taken up by the Offeror under the Partial Offer; and
- (c) will have the opportunity of retaining an equity interest in CHB which will maintain its listing on the Stock Exchange following closing of the Partial Offer.

5. SPECIAL DEAL

On 25 October 2013, CHB entered into the Property Agreement with LCHI, a controlling shareholder of CHB, for the Property Transfer and the Lease.

Details of the Property Agreement were set out in the “Letter from the Board” in the CHB Circular.

As the Property Agreement was entered into during the Offer Period of the Partial Offer and as the benefit of the Property Agreement was not capable of being extended to all CHB Shareholders, the Property Agreement constitutes a special deal in relation to the Partial Offer under Note 4 to Rule 25 of the Code.

Consent has been granted by the Executive to proceed with the Property Agreement. As at the date of the Composite Document, the condition attaching to such consent had been fulfilled.

On 20 December 2013, the Property Agreement was approved by the LCHI Shareholders and the Independent CHB Shareholders in accordance with the Listing Rules and the Code at the LCHI EGM and the CHB EGM.

Completion of the Property Transfer remains conditional upon the receipt by LCH Estate of payment in full of the consideration for the LCH Estate IU Shares taken up by the Offeror in accordance with the terms of the Partial Offer. Such condition may not be waived without the agreement of both LCHI and CHB. Neither LCHI nor CHB intends to waive such condition. Completion of the Property Transfer shall take place on the day falling three business days after the date on which such condition is satisfied.

6. INFORMATION OF THE CHB GROUP

CHB is a limited company incorporated in Hong Kong and the CHB Shares are listed on the Main Board of the Stock Exchange. The CHB Group is principally engaged in the provision of banking and related financial services.

Your attention is drawn to the financial information of the CHB Group, the valuation of the Property and the general information of the CHB Group set out in Appendices II, IV and V to the Composite Document, respectively.

LETTER FROM THE CHB BOARD

7. INFORMATION ON YUEXIU AND THE OFFEROR

Please refer to the letter from Nomura contained in the Composite Document for information relating to Yuexiu and the Offeror.

8. INTENTION OF THE OFFEROR WITH REGARD TO CHB

Your attention is drawn to the letter from Nomura contained in the Composite Document which sets out the intentions of the Offeror regarding the business of CHB. The CHB Board notes and welcomes in particular (i) the Offeror's intention and commitment to the stability of CHB's business and operations after closing of the Partial Offer; (ii) the commitment made by the Offeror in respect of the employees of the CHB Group for a period of 24 months from the Final Closing Date; (iii) the commitment made by the Offeror in relation to share issues over the period of 12 months from the Final Closing Date; and (iv) the Offeror's intention relating to the maintenance of the listing status of CHB following closing of the Partial Offer, all as disclosed in the letter from Nomura in the Composite Document.

9. MAINTAINING THE LISTING STATUS OF CHB

According to the letter from Nomura contained in the Composite Document, the Offeror intends to maintain the listing status of CHB following closing of the Partial Offer. Upon closing of the Partial Offer, CHB may continue to have one or more substantial shareholders (in addition to the Offeror), depending on the extent to which the Partial Offer is accepted by the CHB Shareholders. Since substantial shareholders of CHB are connected persons of CHB under the Listing Rules, their CHB Shares will not be regarded as part of the public float for the purposes of CHB's compliance with the public float requirement under Rule 8.08 of the Listing Rules. We note that, if, after LCH Estate ceases to be a substantial shareholder and a connected person of CHB after closing of the Partial Offer pursuant to the LCHI Irrevocable Undertaking (as disclosed in the paragraph headed "Non-compete and other undertakings" under the section headed "LCHI Irrevocable Undertaking" in the letter from Nomura contained in the Composite Document), the number of CHB Shares held by the public after closing of the Partial Offer still represents less than 25 per cent. of the CHB Shares, the Offeror will, after closing of the Partial Offer, take appropriate steps to ensure that not less than 25 per cent. of the CHB Shares will be held by the public in compliance with the Listing Rules, which may include the Offeror or another connected person of CHB selling some of its CHB Shares. According to the letter from Nomura contained in the Composite Document, based on such understanding, the directors of the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the CHB Shares. We understand that the Offeror does not intend to avail itself of any powers of compulsory acquisition.

The Stock Exchange has stated that if, at the close of the Partial Offer, less than the minimum prescribed percentage applicable to CHB, being 25 per cent. of the issued CHB Shares, are held by the public, or if the Stock Exchange believes that:-

- a false market exists or may exist in the trading of the CHB Shares; or

LETTER FROM THE CHB BOARD

— that there are insufficient CHB Shares in public hands to maintain an orderly market;

it will consider exercising its discretion to suspend dealings in the CHB Shares.

10. FURTHER INFORMATION ON THE PARTIAL OFFER

Please refer to the letter from Nomura contained in the Composite Document, Appendix I to the Composite Document and the Form of Acceptance for further information in relation to the Partial Offer, including its extension to overseas CHB Shareholders and information on taxation, acceptance and settlement procedures.

11. RECOMMENDATION

Your attention is drawn to (i) the letter from the CHB Code Independent Board Committee set out in the Composite Document, which contains its advice and recommendations to the Independent CHB Shareholders in relation to the Partial Offer; and (ii) the letter from Somerley set out in the Composite Document, which contains its advice to the CHB Code Independent Board Committee in relation to the Partial Offer and the principal factors considered by it before arriving at its recommendation. You are also advised to read the remainder of the Composite Document and the Form of Acceptance in respect of the acceptance and settlement procedures of the Partial Offer.

Yours faithfully,
By Order of the CHB Board
Dr. Liu Lit Mo
Chairman



15 January 2014

To the Independent CHB Shareholders

Dear Sir or Madam,

**VOLUNTARY CASH PARTIAL OFFER BY NOMURA
ON BEHALF OF YUEXIU FINANCIAL HOLDINGS LIMITED TO ACQUIRE
A MAXIMUM OF 326,250,000 CHB SHARES IN THE CAPITAL OF
CHONG HING BANK LIMITED (REPRESENTING 75% OF ITS ISSUED SHARE CAPITAL)
FROM QUALIFYING CHB SHAREHOLDERS**

We refer to the Composite Document dated 15 January 2014 in respect of the Partial Offer jointly issued by Yuexiu, the Offeror and CHB, of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Composite Document.

We have been appointed by the CHB Board as members of the CHB Code Independent Board Committee to consider, among other things, the terms of the Partial Offer and to advise you (i.e. the Independent CHB Shareholders), among other things, as to whether or not the terms of the Partial Offer are fair and reasonable and as to the acceptance of the Partial Offer. Somerley Limited has been appointed as the CHB Independent Financial Adviser to make recommendation to us in respect of, among other things, whether the terms of the Partial Offer are fair and reasonable and as to acceptance of the Partial Offer. Details of its advice and recommendation, together with the principal factors and reasons which it has considered before arriving at such recommendation, are set out in the “Letter from Somerley” in the Composite Document.

We also wish to draw your attention to the “Letter from the CHB Board”, the “Letter from Nomura” and the additional information set out in the appendices to the Composite Document.

LETTER FROM THE CHB CODE INDEPENDENT BOARD COMMITTEE

Having taken into account the principal factors set out in the “Letter from Somerley” in the Composite Document and summarised in the section headed “Discussion and Analysis” therein, we consider that the terms of the Partial Offer (including the Offer Price) are fair and reasonable so far as the Independent CHB Shareholders are concerned and accordingly we recommend the Independent CHB Shareholders to accept the Partial Offer.

Those Qualifying CHB Shareholders who, after considering the information on Yuexiu and the Offeror and the future intentions of the Offeror regarding the CHB Group, are attracted by the future prospects of the CHB Group following the Partial Offer, may consider retaining their CHB Shares or tendering less than all their CHB Shares under the Partial Offer. If acceptances are received in respect of more than 326,250,000 CHB Shares, not all CHB Shares tendered will be taken up under the Partial Offer, so Qualifying CHB Shareholders will continue to hold some CHB Shares in any event, unless they sell in the market.

Some CHB Shareholders, particularly those holding a small number of board lots, who are concerned about the drawbacks of being left with an odd lot, may consider selling their CHB Shares in the market before the close of the Partial Offer to achieve a complete sale. Such CHB Shareholders should note however that if they sell in the market before the ex-entitlement date in respect of the CHB Special Dividend, they will not receive the CHB Special Dividend. Consequently, they should use caution when comparing the current price of the CHB Shares (and future prices up to the last day of dealings with entitlement to the CHB Special Dividend of HK\$4.5195), with the Offer Price of HK\$35.69, which does not include an entitlement to the CHB Special Dividend.

The procedures for acceptance of the Partial Offer, which is somewhat unusual in Hong Kong, are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance. Qualifying CHB Shareholders are urged to read the timetable set out in the Composite Document and any revised timetable (if any) to be announced by the Offeror and CHB carefully and act accordingly if they wish to accept the Partial Offer.

The Independent CHB Shareholders are also strongly recommended to read the full text of the “Letter from Somerley” set out in the Composite Document.

Yours faithfully,

the CHB Code Independent Board Committee

He Jiale
Hidekazu Horikoshi
Alfred Cheuk Yu Chow
Meng Qinghui
Robin Yau Hing Chan
Timothy George Freshwater
Wanchai Chiranakhorn
Cheng Yuk Wo
Andrew Chiu Cheung Ma

LETTER FROM SOMERLEY

The following is the text of a letter of advice from Somerley Limited to the CHB Code Independent Board Committee, which has been prepared for the purpose of inclusion in the Composite Document.



SOMERLEY LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

15 January 2014

*To: the CHB Code Independent Board Committee of
Chong Hing Bank Limited*

Dear Sirs,

**VOLUNTARY CASH PARTIAL OFFER BY NOMURA ON BEHALF OF
YUEXIU FINANCIAL HOLDINGS LIMITED TO ACQUIRE A MAXIMUM
OF 326,250,000 CHB SHARES IN
THE CAPITAL OF CHONG HING BANK LIMITED
(REPRESENTING 75% OF ITS ISSUED SHARE CAPITAL) FROM
QUALIFYING CHB SHAREHOLDERS**

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the CHB Code Independent Board Committee in connection with the Partial Offer. Details of the Partial Offer are contained in the Composite Document dated 15 January 2014, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

As set out in the Announcement, Nomura is making, on behalf of the Offeror, a voluntary cash partial offer to acquire a maximum of 326,250,000 CHB Shares (representing 75% of the CHB Shares in issue as at the date of the Announcement) from the Qualifying CHB Shareholders. The making of the Partial Offer was subject to the satisfaction of the Pre-Condition, being the granting of approval by the HKMA for each of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), Yuexiu and the Offeror to become a majority shareholder controller of CHB under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong). On 9 January 2014, Yuexiu, the Offeror and CHB jointly announced that the Pre-Condition had been satisfied.

LETTER FROM SOMERLEY

The CHB Board currently consists of five executive directors, five non-executive directors and five independent non-executive directors. In accordance with Rule 2.8 of the Code, members of the CHB Code Independent Board Committee should comprise all non-executive directors who have no direct or indirect interest in the Partial Offer. Mr. Christopher Kwun Shing Liu, also being an executive director of LCHI, is considered to be materially interested in the Property Agreement and is therefore excluded from the CHB Code Independent Board Committee. The CHB Code Independent Board Committee, comprising all of the non-executive CHB Directors (other than Mr. Christopher Kwun Shing Liu), namely Mr. He Jiale, Mr. Hidekazu Horikoshi, Mr. Alfred Cheuk Yu Chow, Mr. Meng Qinghui, Dr. Robin Yau Hing Chan, Mr. Timothy George Freshwater, Mr. Wanchai Chiranakhorn, Mr. Cheng Yuk Wo and Mr. Andrew Chiu Cheung Ma, has been established to make recommendations to the Independent CHB Shareholders as to whether the Partial Offer is fair and reasonable and as to whether they should accept it. The CHB Code Independent Board Committee has approved our appointment as the CHB Independent Financial Adviser to advise the CHB Code Independent Board Committee in this regard.

We are not associated or connected with CHB or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Partial Offer. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from CHB or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Announcement; (ii) the annual reports of CHB for the two years ended 31 December 2011 and 2012; (iii) the interim report of CHB for the six months ended 30 June 2013; (iv) the CHB Circular (including the property valuation report contained therein); and (v) the material change statement set out in Appendix II to the Composite Document. We have relied on the information and facts supplied, and the opinions expressed, by the CHB Directors, and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects and will remain so up to the Latest Practicable Date. We have further assumed that all representations contained or referred to in the Composite Document are true, accurate and complete. Independent CHB Shareholders will be informed as soon as practicable if we become aware of any material change to such information. We have also sought and received confirmation from the CHB Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We consider that the information we have received is sufficient for us to reach our opinion and give the advice and recommendations set out in this letter. We have no reason to believe that any material information has been omitted or withheld, or doubt the truth or accuracy of the information provided. We have, however, not conducted any independent investigation into the business and affairs of the CHB Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax implications of accepting the Partial Offer for the Independent CHB Shareholders since these depend on their individual circumstances. In particular, Independent CHB Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

LETTER FROM SOMERLEY

PRINCIPAL TERMS OF THE PARTIAL OFFER

The terms set out below are summarised from the “Letter from Nomura” and “Letter from the CHB Board” contained in the Composite Document and Appendix I to the Composite Document. Independent CHB Shareholders are encouraged to read the relevant letters and appendix in full.

(a) Offer Price

On behalf of the Offeror, Nomura is making the Partial Offer on the following basis:

For each CHB ShareHK\$35.69 in cash

The CHB Shares to be acquired under the Partial Offer shall be acquired free from all encumbrances and together with all rights and benefits accruing and attaching thereto as at or after the Final Closing Date including all rights to any dividend or other distributions declared, made or paid on or after the Final Closing Date (excluding the CHB Special Dividend). Acceptance of the Partial Offer would not disentitle a CHB Shareholder from receiving the CHB Special Dividend.

The Offeror shall purchase as many CHB Shares as tendered by the Qualifying CHB Shareholders up to a maximum of 326,250,000 CHB Shares (representing 75% of the CHB Shares in issue as at the date of the Announcement).

(b) Conditions of the Partial Offer

Other Conditions having been fulfilled, the Partial Offer is now subject only to valid acceptances of the Partial Offer being received in respect of a minimum of 217,500,001 CHB Shares (representing 50% of the CHB Shares in issue as at the date of the Announcement plus one CHB Share) by 4:00 p.m. on or prior to the First Closing Date (or such later time(s) and/or date(s) as the Offeror may decide and the Executive may approve). As explained in sub-section headed “(c) The irrevocable undertakings” below, the Partial Offer will become unconditional in all respects upon acceptance of the Partial Offer by LCH Estate pursuant to the LCHI Irrevocable Undertaking. Further details of the Conditions are set out in the “Letter from Nomura” in the Composite Document.

(c) The irrevocable undertakings

On 25 October 2013, the LCHI Irrevocable Undertaking was entered into by, among others, Yuexiu, LCHI (which holds the LCH Estate IU Shares through LCH Estate), LCH Estate, and L Holdings under which, among other things, LCHI and LCH Estate have irrevocably undertaken, jointly and severally, to Yuexiu that the Partial Offer will be accepted by LCH Estate in respect of all of the LCH Estate IU Shares (being 218,359,628 CHB Shares). These CHB Shares represent approximately 50.2% of the CHB Shares in issue as at the Latest Practicable Date, and are sufficient to ensure the Partial Offer becomes unconditional as to acceptances (and consequently, unconditional in all respects). The acceptance shall be made no later than three business days after the despatch date of the Composite Document. An announcement will be made when, as a result of this acceptance being received, the Partial Offer becomes unconditional in all respects. LCH Estate has undertaken not to withdraw such acceptance.

LETTER FROM SOMERLEY

LCHI and LCH Estate have also agreed to restrictive covenants, as well as non-compete and other undertakings, details of which are set out in the “Letter from Nomura” contained in the Composite Document.

(d) Other terms of the Partial Offer

The Qualifying CHB Shareholders may accept the Partial Offer in respect of some or all of the CHB Shares held by them. Subject to the Partial Offer becoming unconditional in all respects: (i) if valid acceptances are received for 326,250,000 or fewer CHB Shares, all CHB Shares validly accepted will be taken up; and (ii) if valid acceptances are received for more than 326,250,000 CHB Shares, the total number of the CHB Shares to be taken up by the Offeror from each Qualifying CHB Shareholder will be determined by a pro rata principle, in accordance with the formula as set out in the “Letter from Nomura” contained in the Composite Document.

The CHB Shares are traded in board lots of 1,000 CHB Shares. **If valid acceptances are received for more than 326,250,000 CHB Shares, Qualifying CHB Shareholders who tender their CHB Shares will most probably hold, on completion of the Partial Offer, an odd lot of CHB Shares.**

Computershare Hong Kong Investor Services Limited, whose address is at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (contact person: Ms. Fiona Chu; telephone number: +852 2862 8564) has been appointed by the Offeror as the designated broker to match sales and purchases of odd lot holdings of CHB Shares in the market for a period of six weeks following the closing of the Partial Offer to enable such Qualifying CHB Shareholders to dispose of their odd lots or to top up their odd lots to whole board lots of 1,000 CHB Shares. The Qualifying CHB Shareholders should note that the matching of odd lots is not guaranteed.

The Qualifying CHB Shareholders accepting the Partial Offer should read carefully the detailed terms and conditions of the Partial Offer, in particular the formula for determining the number of CHB Shares to be taken up by the Offeror from each Qualifying CHB Shareholder which are set out in the “Letter from Nomura” contained in the Composite Document and the procedures for acceptance of the Partial Offer which are set out in Appendix I to the Composite Document.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Partial Offer, we have taken into account the following principal factors and reasons:

1. Background to and reasons for the Partial Offer

The CHB Group is principally engaged in the provision of banking and related financial services. The CHB Group’s operating segments are (i) corporate and retail banking services which include the provision of lending and trade finance facilities, auto financing, consumer financing, overdraft

LETTER FROM SOMERLEY

facilities, mandatory provident fund services, provision of fixed deposits, current and savings accounts, credit cards and personal wealth management services; (ii) treasury activities, mainly comprising inter-bank placement and deposit transactions, management of overall interest rate risk and liquidity of the CHB Group and centralised cash management; (iii) securities dealing activities which include securities trading, stockbroking and futures broking; and (iv) others including investment holding, insurance, other investment advisory services and property investments.

As stated in the “Letter from Nomura” contained in the Composite Document, the Offeror is an investment holding company incorporated in Hong Kong with limited liability, and is wholly-owned by Yuexiu, a limited company incorporated in Hong Kong and a wholly-owned subsidiary of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), a State-owned limited liability company incorporated in the PRC beneficially wholly-owned by GMPG. It is further stated in the “Letter from Nomura” contained in the Composite Document that Yuexiu is the principal investment vehicle of GMPG in Hong Kong and is principally engaged in real estate business, transport and infrastructure businesses, and finance and securities businesses. The principal business activity of the Offeror is the holding of its investment to be made in CHB.

In recent years, there has been growing demand for PRC mainland-Hong Kong cross-border financial services which has led to the integration of financial institutions in the PRC and in Hong Kong. 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*) is one of the largest State-owned enterprises in Guangzhou in terms of total assets. Finance and securities business are one of Yuexiu’s businesses. Yuexiu and the Offeror believe that the acquisition of CHB represents an important opportunity to further develop Yuexiu Group’s financial services expertise and the Partial Offer will enable them to take advantage of CHB’s financial services licences, customer network, comprehensive portfolio of products and listing status to further develop its financial services platform in Hong Kong and elsewhere. With the intention to maintain the listing status of CHB, the Offeror has decided to proceed with the Partial Offer instead of a general offer.

LETTER FROM SOMERLEY

2. Financial information and prospects of the CHB Group

(a) Financial performance

The following is a summary of the (i) unaudited consolidated results of the CHB Group for each of the six months ended 30 June 2012 and 2013; and (ii) audited consolidated results of the CHB Group for the three years ended 31 December 2010 (*Note 1*), 2011 and 2012, as extracted from the relevant interim report and annual reports of CHB. Further details of the results and other financial information of the CHB Group are set out in Appendix II to the Composite Document.

	Six months ended 30 June 2013	Six months ended 30 June 2012	For the year ended 31 December		
			2012	2011	2010
				<i>(Restated)</i>	<i>(Restated)</i>
				<i>(Note 1)</i>	<i>(Note 1)</i>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Interest income	762,101	782,675	1,563,820	1,369,989	1,178,582
Interest expense	<u>(286,363)</u>	<u>(382,124)</u>	<u>(726,912)</u>	<u>(554,668)</u>	<u>(362,455)</u>
Net interest income	475,738	400,551	836,908	815,321	816,127
Fee and commission income	140,228	122,059	253,949	276,257	291,763
Fee and commission expenses	<u>(34,351)</u>	<u>(30,182)</u>	<u>(64,584)</u>	<u>(58,534)</u>	<u>(51,589)</u>
Net fee and commission income	105,877	91,877	189,365	217,723	240,174
Net (losses)/gains on financial instruments at fair value through profit or loss	(116,056)	28,358	57,473	(102,418)	23,752
Net (losses)/gains on fair value hedge	(262)	727	1,200	(20,679)	13,294
Other operating income	228,147	122,660	237,835	404,855	158,134
Operating expenses	<u>(358,253)</u>	<u>(387,075)</u>	<u>(788,591)</u>	<u>(773,555)</u>	<u>(711,935)</u>
	<u>335,191</u>	<u>257,098</u>	<u>534,190</u>	<u>541,247</u>	<u>539,546</u>
Impairment allowances on loans and advances					
- New allowances	(28,269)	(4,716)	—	—	(17,785)
- Amounts reversed	<u>10,677</u>	<u>39,148</u>	<u>65,228</u>	<u>107,188</u>	—
	<u>(17,592)</u>	<u>34,432</u>	<u>65,228</u>	<u>107,188</u>	<u>(17,785)</u>
Net losses on disposal of property and equipment	(978)	(8)	(1,861)	(4,128)	(79)
Net gains on disposal of available-for-sale securities	51	468	594	697	14,445
Net gains on disposal of and fair value adjustments on investment properties	4,237	6,646	12,206	9,065	15,895

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	Six months ended 30 June 2013	Six months ended 30 June 2012	For the year ended 31 December		
	(HK\$'000)	(HK\$'000)	2012 (HK\$'000)	2011 (Restated) (Note 1) (HK\$'000)	2010 (Restated) (Note 1) (HK\$'000)
Impairment losses on available-for-sale securities	—	—	—	(4,473)	(2,739)
Share of profits of associates/jointly controlled entities	8,348	10,387	36,028	18,056	19,036
Profit before taxation	329,257	309,023	646,385	667,652	568,319
Taxation	(52,950)	(49,274)	(103,045)	(106,936)	(90,404) (Note 1)
Profit for the period/year - attributable to owners of CHB	276,307	259,749	543,340	560,716	477,915 (Note 1)
Earnings per CHB Share - basic (Note 2)	HK\$0.64	HK\$0.60	HK\$1.25	HK\$1.29	HK\$1.10
Dividend per CHB Share (Note 3)					
Interim dividend	HK\$0.14	HK\$0.11	HK\$0.11	HK\$0.15	HK\$0.10
Final dividend	Not applicable	Not applicable	HK\$0.35	HK\$0.35	HK\$0.35
Total dividend	HK\$0.14	HK\$0.11	HK\$0.46	HK\$0.50	HK\$0.45

Notes:

- (1) The consolidated results of the CHB Group for the two years ended 31 December 2010 and 2011 were restated as the CHB Group had applied the amendments to Hong Kong Accounting Standard 12 “Deferred tax: Recovery of underlying assets” retrospectively in its annual financial statements for 2012, details of which are set out in CHB’s 2012 annual report and the section headed “Summary of financial information of the CHB Group” in Appendix II to the Composite Document. The relevant restated figures for the year ended 31 December 2010 are extracted from the section headed “Summary of financial information of the CHB Group” in Appendix II to the Composite Document.
- (2) Source: section headed “Summary of financial information of the CHB Group” in Appendix II to the Composite Document.
- (3) The amount represents dividend declared per CHB Share in respect of the respective financial period/year but excludes the CHB Special Dividend of HK\$4.5195 per CHB Share.

LETTER FROM SOMERLEY

(i) *Net interest income*

Interest income of the CHB Group includes primarily interest relating to loans and advances, investment in securities, and balances and placements with banks and other financial institutions. The CHB Group's interest expense mainly relates to deposits and balances from banks and customers.

In 2011, net interest income was approximately HK\$815 million, similar to that in 2010, as total assets increased by approximately 4.3% year on year but net interest margin narrowed by approximately 4 basis points to 1.17%.

For the year ended 31 December 2012, CHB continued to achieve growth in mortgage loans and corporate loans. Net interest income increased by approximately 2.6% to approximately HK\$837 million, as total assets increased by approximately 4.3% but net interest margin narrowed by approximately 7 basis points to 1.1% year on year.

For the first half of 2013, net interest income amounted to approximately HK\$476 million. This represented an increase of approximately 18.8% as compared to that of the six months ended 30 June 2012 as total assets rose by approximately 2.3% year on year and net interest margin widened 13 basis points from approximately 1.06% for the first half of 2012 to approximately 1.19% for the first half of 2013.

(ii) *Net fee and commission income*

The CHB Group's fee and commission income is mainly generated from its securities dealings business. In 2011, net fee and commission income dropped by approximately 9.3% to approximately HK\$218 million due to, among other things, fierce competition in securities dealing. In 2012, net fee and commission decreased further to approximately HK\$189 million mainly because of the reduction in commission income from securities dealings.

For the first half of 2013, net fee and commission income amounted to approximately HK\$106 million, representing an increase of approximately 15.2% as compared to that of first half of 2012. This was mainly attributable to an increase in commission income from customer securities dealings and commission income from agency services.

(iii) *Net losses/gains on financial instruments at fair value through profit or loss*

The CHB Group recorded net losses on financial instruments at fair value through profit or loss of approximately HK\$102 million for the year ended 31 December 2011 due to widening credit spreads on Hong Kong and PRC debt securities, resulting in revaluation losses. For the year ended 31 December 2012, net gains on financial instruments at fair value through profit or loss of approximately HK\$57 million were recorded as the financial market sentiment for Hong Kong and PRC related debt securities improved.

LETTER FROM SOMERLEY

For the six months ended 30 June 2013, net losses on financial instruments at fair value through profit or loss were approximately HK\$116 million. This included revaluation losses on foreign currency forward contracts of approximately HK\$124 million which should be offset by net exchange gains and net gains from foreign currency contracts of HK\$159 million included under other operating income as mentioned below.

(iv) *Other operating income*

The CHB Group's other operating income includes dividend income, net exchange gains and net gains from foreign currency contracts, net rental income, safe deposit box rentals, insurance underwriting premium (less claims and commission expense), other banking services income and others.

For the year ended 31 December 2011, the CHB Group recorded other operating income of approximately HK\$405 million, which includes an amount of approximately HK\$235 million representing the recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme (net of ex-gratia payments to customers who held the minibonds). In the absence of any similar item in 2012, the CHB Group recorded other operating income of approximately HK\$238 million.

For the six months ended 30 June 2013, the CHB Group recorded net exchange gains and net gains from foreign currency contracts of approximately HK\$159 million (which should offset revaluation losses on foreign currency forward contracts of approximately HK\$124 million recorded in the same period as set out above). These contracts were entered into by CHB mainly to exchange surplus funds from customer deposits in Australian and New Zealand dollars into United States dollars, which created the spot positions, and to place them in the interbank market to earn extra return. This contributed to recording other operating income of approximately HK\$228 million for the six months ended 30 June 2013, an increase of approximately HK\$105 million over the first half of 2012.

(v) *Operating expenses*

The CHB Group's operating expenses comprise mainly staff costs (including directors' emoluments), other operating expenses, depreciation and rentals and rates for premises. For the year ended 31 December 2011, operating expenses increased by approximately HK\$62 million from the previous year mainly due to increase in total staff costs. Operating expenses continued to increase slightly by approximately 1.9% in 2012. For the first half of 2013, operating expenses amounted to approximately HK\$358 million, representing a drop of approximately 7.4% from the corresponding period in 2012.

(vi) *Impairment allowances on loans and advances*

For the year ended 31 December 2010, the CHB Group recorded impairment allowances on loans and advances of approximately HK\$18 million. In 2011, an amount of HK\$170 million was recovered by CHB in respect of a secured loan previously written-off.

LETTER FROM SOMERLEY

For the year ended 31 December 2012, new impairment allowances under individual assessment on loans and advances were approximately HK\$6 million, while a total of approximately HK\$71 million of impairment allowances on loans and advances was reversed after recoveries from various customers and a reduction in total loans and advances. This resulted in a net reversal of impairment allowances of approximately HK\$65 million.

For the six months ended 30 June 2013, new impairment allowances on loans and advances were approximately HK\$28.3 million as compared to approximately HK\$4.7 million for the six months ended 30 June 2012. The increase was mainly attributable to an increase in collective impairment allowances. For the first half of 2013, reversal of impairment allowances on loans and advances amounted to approximately HK\$10.7 million, which resulted in a net impairment allowance on loans and advances of approximately HK\$17.6 million for the period.

(vii) *Profit attributable to owners of CHB*

The net effect of these various factors has been a relatively flat profit performance over the period.

Profit attributable to owners of CHB amounted to approximately HK\$561 million in 2011, representing an increase of approximately 17.3% compared to 2010. This was mainly due to an increase in other operating income and the amount reversed on impairment allowances on loans and advances, partially offset by items such as net losses on financial instruments at fair value through profit or loss, increase in operating expenses, decrease in net fee and commission income and losses recorded on fair value hedge.

For the year ended 31 December 2012, profit attributable to owners of CHB decreased by approximately HK\$17 million compared to 2011. This was mainly due to decreases in other operating income, net fee and commission income and reversal of impairment allowances on loans and advances. These items were partially offset by net gains on financial instruments at fair value through profit or loss, net gains on fair value hedge and an increase in net interest income.

For the first half of 2013, profit attributable to owners of CHB amounted to approximately HK\$276 million, representing an increase of approximately 6.4% as compared to the first half of 2012.

(viii) *Basic earnings per CHB Share and dividends*

Basic earnings per CHB Share for the three years ended 31 December 2010, 2011 and 2012 were approximately HK\$1.10, HK\$1.29 and HK\$1.25 respectively, and basic earnings per CHB Share for the six months ended 30 June 2013 was approximately HK\$0.64. Since there was no issue of new CHB Shares in the relevant year or period, the movements in the earnings per CHB Share followed the net profits.

CHB declared an interim cash dividend of HK\$0.14 per CHB Share in respect of the six months ended 30 June 2013 (which was paid on 26 September 2013) totalling approximately HK\$61 million. Total dividends declared for the financial year ended 31 December 2012 amounted to HK\$0.46 per CHB Share, which was at a similar level as the total dividend declared in respect of 2011 (HK\$0.50 per CHB Share) and 2010 (HK\$0.45 per CHB Share).

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No forecast of profits of the CHB Group has been made for the year ended 31 December 2013. Comments on the prospects of the CHB Group and the material changes since 31 December 2012 are summarised in the paragraph headed “Prospects of the CHB Group” of this sub-section — “Financial information and prospects of the CHB Group” below.

(b) *Financial position*

Set out below are the summarised consolidated balance sheets of the CHB Group as at 1 January 2011, 31 December 2011, 31 December 2012 (all extracted from the audited 2012 annual report of CHB) and 30 June 2013 (extracted from the unaudited 2013 interim report of CHB). Further details of the financial position of the CHB Group as at those dates and other financial information of the CHB Group, including indebtedness statement, are set out in Appendix II to the Composite Document.

	As at 30 June 2013	As at 31 December		As at 1 January
		2012	2011	2011
			<i>(Restated)</i>	<i>(Restated)</i>
			<i>(Note 1)</i>	<i>(Note 1)</i>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Assets				
Cash and short-term funds	11,960,197	17,331,877	18,659,276	18,249,365
Placements with banks and other financial institutions maturing between one to twelve months	8,423,633	4,789,513	2,169,007	2,282,122
Derivative financial instruments	107,669	187,911	129,556	20,542
Financial assets at fair value through profit or loss	91,350	1,213,410	1,845,589	1,774,453
Available-for-sale securities	4,567,204	4,222,217	1,846,485	1,212,428
Held-to-maturity securities	11,556,974	9,600,020	8,288,082	10,878,046
Advances and other accounts	43,665,018	42,109,218	43,247,956	38,835,820
Tax recoverable	—	—	—	6
Interests in associates	186,888	182,970	153,872	136,919
Investment properties	136,162	135,318	127,171	116,400
Property and equipment	913,939	928,380	918,968	729,771
Prepaid lease payments for land	2,417	2,423	2,483	2,535
Deferred tax assets	1,475	1,502	16,861	—
Goodwill	50,606	50,606	50,606	50,606
Total assets	<u>81,663,532</u>	<u>80,755,365</u>	<u>77,455,912</u>	<u>74,289,013</u>

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	As at 30 June 2013 <i>(HK\$'000)</i>	As at 31 December 2012 2011 <i>(Restated)</i> <i>(Note 1)</i> <i>(HK\$'000)</i>		As at 1 January 2011 <i>(Restated)</i> <i>(Note 1)</i> <i>(HK\$'000)</i>
Liabilities				
Deposits and balances of banks and other financial institutions	2,080,049	1,843,477	1,086,836	1,039,991
Financial assets sold under repurchase agreements	437,349	433,681	420,652	—
Deposits from customers	68,755,915	67,508,748	64,815,713	63,500,219
Certificates of deposit	177,511	667,636	1,545,562	—
Derivative financial instruments	194,445	248,656	265,696	256,426
Other accounts and accruals	707,528	740,229	558,495	442,834
Current tax liabilities	57,449	16,327	31,176	50,106
Loan capital	1,794,150	1,898,957	1,852,153	2,401,151
Deferred tax liabilities	11,832	23,574	6,897	11,478
Total liabilities	<u>74,216,228</u>	<u>73,381,285</u>	<u>70,583,180</u>	<u>67,702,205</u>
Equity attributable to owners of CHB				
Share capital	217,500	217,500	217,500	217,500
Reserves	7,229,804	7,156,580	6,655,232	6,369,308
Total equity	<u>7,447,304</u>	<u>7,374,080</u>	<u>6,872,732</u>	<u>6,586,808</u>
Net asset value per CHB Share <i>(Note 2)</i>	HK\$17.12	HK\$16.95	HK\$15.80	HK\$15.14

Notes:

- (1) The consolidated balance sheets of the CHB Group as at 31 December 2011 and 1 January 2011 were restated as the CHB Group applied the amendments to Hong Kong Accounting Standard 12 “Deferred tax: Recovery of underlying assets” retrospectively in its annual financial statements for 2012, details of which are set out in CHB’s 2012 annual report and the section headed “Summary of financial information of the CHB Group” in Appendix II to the Composite Document.
- (2) Net asset value per CHB Share is calculated by dividing total equity attributable to owners of CHB by 435,000,000 CHB Shares in issue as at the end of the respective financial period/year.

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(i) *Major assets*

The assets of the CHB Group are mainly cash and short-term funds, held-to-maturity securities, and advances and other accounts. Cash and short-term funds consist of cash and balances with banks and other financial institutions, money at call and short notice, and exchange fund bills. Advances and other accounts include primarily advances to customers, interest receivable, advances to banks and other financial institutions, and other accounts.

As at 31 December 2011, the CHB Group recorded advances and other accounts in the amount of approximately HK\$43,248 million, representing an increase of approximately 11.4% as compared to 1 January 2011. Advances and other accounts dropped to approximately HK\$42,109 million as at 31 December 2012. In particular, syndicated loans decreased due to repayments, and funds were redeployed to assets offering higher yield.

As at 30 June 2013, advances and other accounts were approximately HK\$43,665 million, with increases in loans to corporations for use in Hong Kong, loans for purchase of Hong Kong residential properties and trade finance.

As at 30 June 2013, the unaudited carrying value of the Property was approximately HK\$264 million, compared to the independent valuation of HK\$2,230 million as at 25 October 2013 as set out in the CHB Circular. However, this surplus is offset by the proposed CHB Special Dividend.

(ii) *Major liabilities*

The liabilities of the CHB Group are mainly deposits from customers, and deposits and balances of banks and other financial institutions. Deposits from customers comprise demand deposits and current accounts, savings deposits, and time, call and notice deposits. As at 31 December 2011, total customer deposits increased slightly by approximately 2.1% to approximately HK\$64,816 million as compared to the position as at 1 January 2011. In 2012, CHB continued to consolidate its core client base of deposit and actively recruited small and medium-sized customers through various series of promotion campaigns in the community. Total customer deposits increased by approximately 4.2% to approximately HK\$67,509 million as at 31 December 2012. As at 30 June 2013, total customer deposits were HK\$68,756 million.

(iii) *Net asset value per CHB Share*

As at 30 June 2013, the unaudited consolidated net asset value attributable to owners of CHB per CHB Share was approximately HK\$17.12 per CHB Share (before the payment of the interim cash dividend of HK\$0.14 per CHB Share declared for 2013), calculated by dividing the unaudited net asset value of the CHB Group attributable to owners of CHB of approximately HK\$7,447 million by the 435,000,000 CHB Shares in issue as at 30 June 2013.

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(iv) *Key financial ratios*

The following table sets out the key financial ratios of the CHB Group as extracted from CHB's relevant interim and annual reports:

	As at 30 June 2013	As at 31 December		
		2012	2011	2010
Capital adequacy ratio	14.63%	15.34%	15.44%	17.91%
Loan-to-deposit ratio	56.42%	52.53%	57.17%	54.78%
Return on equity	7.40%	7.64%	8.32%	7.55%

(annualised)

As at 31 December 2011, the CHB Group's capital adequacy ratio decreased to 15.44% from 17.91% in 2010 partly due to growth in loans and advances to customers. Capital adequacy ratio was at a similar level as at 31 December 2012 and decreased slightly to 14.63% as at 30 June 2013 after further increases in advances to customers and investment in debt securities.

Loan-to-deposit ratio increased from 54.78% as at 31 December 2010 to 57.17% as at 31 December 2011 as loan growth exceeded deposit growth. This reversed in 2012 and the loan-to-deposit ratio decreased to 52.53%.

As there has been stronger growth in loan than deposits as at 30 June 2013, the loan-to-deposit ratio increased to 56.42% as at 30 June 2013. Return on equity was at 7.55%, 8.32% and 7.64% as at 31 December 2010, 2011 and 2012 respectively.

(c) *Prospects of the CHB Group*

The CHB Directors consider that the long term outlook of the banking industry in Hong Kong to be positive as a result of (1) increasing cross-border cooperation such as the strong development of Hong Kong as an offshore Renminbi business centre and easing of cross-border loan restrictions; and (2) improvement of exports from the PRC and Hong Kong as the economies in the United States of America and Europe begin to grow. The outlook for offshore loan demand from mainland enterprises also remains positive, as more of these enterprises are opening offices in Hong Kong to handle their international trading business and raise financing for overseas expansion. It was stated in the 2013 interim report of CHB that, building on the existing cross-border Renminbi clearing services, CHB intended to roll out new Renminbi products in line with market demand, taking a prudent approach to offer a comprehensive range of treasury products and services in Renminbi. However, competition in the banking and finance industry in Hong Kong is expected to remain intense.

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It is disclosed in Appendix II to the Composite Document that save for certain aspects of the 2013 interim results, the CHB Directors confirm that as at the Latest Practicable Date, there had been no material changes in the financial or trading position or outlook of the CHB Group since 31 December 2012, being the date to which the latest published audited financial statements of CHB were made up.

3. Peer comparison

Comparable Companies

We have adopted two criteria in selecting companies comparable to CHB: (i) companies listed on the Stock Exchange with over 50% of their revenue derived from banking operations in Hong Kong based on their latest interim reports; and (ii) a market capitalisation between HK\$10 billion and HK\$40 billion as at the Latest Practicable Date. On this basis, we have identified two comparable companies (the “Comparable Companies”), Dah Sing Banking Group Limited (“Dah Sing Banking”) (stock code: 2356) and Wing Hang Bank, Limited (“Wing Hang Bank”) (stock code: 302). To the best of our knowledge, these two companies represent all the companies comparable to CHB based on the above criteria (other than LCHI and the listed holding company for Dah Sing Banking, whose principal businesses include activities other than the provision of banking services).

We have performed the analyses detailed below.

(a) *Historical price to book (“P/B”) analysis*

The table below sets out the comparison of historical P/Bs of CHB and the Comparable Companies:

Company	Market capitalisation as at the Latest Practicable Date <i>(Approximately HK\$'million)</i> <i>(Note 1)</i>	Unaudited consolidated net assets attributable to equity holders <i>(Approximately HK\$'million)</i> <i>(Note 2)</i>	Historical P/B <i>(Approximately times)</i> <i>(Note 3)</i>
Dah Sing Banking	16,443.0	15,871.5	1.0
Wing Hang Bank	35,968.7	20,409.5	1.8
Simple average			1.4
The Partial Offer			2.1

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Notes:

1. Market capitalisation figures of the Comparable Companies are sourced from Bloomberg.
2. Figures are extracted from the interim reports of the Comparable Companies for the six months ended 30 June 2013, which are their latest available interim reports as at the Latest Practicable Date.
3. The historical P/Bs of the Comparable Companies are calculated based on their unaudited consolidated net assets attributable to their equity holders set out in their respective 2013 interim reports and their closing market capitalisation as at the Latest Practicable Date.

The implied P/B of the Partial Offer of approximately 2.1 times is calculated based on the Offer Price of HK\$35.69 per CHB Share and the unaudited consolidated net asset value per CHB Share as at 30 June 2013 of approximately HK\$17.12.

CHB will distribute, conditional on completion of the Property Transfer, the proceeds of the Property Transfer less the unaudited carrying value of the Property as at 30 June 2013 by way of the CHB Special Dividend to all the CHB Shareholders registered as such on the Record Date, i.e. before the Offeror becomes a registered CHB Shareholder. Since the gain on disposal of the Property will be distributed as the CHB Special Dividend to all the CHB Shareholders, we have performed our analysis based on the net assets value of the CHB Group as at 30 June 2013 without taking into account either the valuation of the Property as determined by the independent property valuer or the payment of the CHB Special Dividend.

Wing Hang Bank announced after trading hours on 16 September 2013 that the substantial shareholders of Wing Hang Bank had been approached by independent third parties in relation to the possible sale of all of the shares in Wing Hang Bank by its substantial shareholders. The closing price of shares of Wing Hang Bank increased from HK\$83.8 per share as at 16 September 2013 to HK\$116.8 per share on 17 September 2013, representing an increase of approximately 39.4%. Further announcements have been made by Wing Hang Bank since 16 September 2013 updating the market on the possible sale of shares by its substantial shareholders. It was further announced by Wing Hang Bank on 6 January 2014 that its substantial shareholders entered into an exclusivity agreement with Oversea-Chinese Banking Corporation Limited in respect of a possible transaction which would, should it proceed, involve a general offer for all the shares in Wing Hang Bank. The price of the shares of Wing Hang Bank closed at HK\$117.0 as at the Latest Practicable Date.

There have been no recent announcements by Dah Sing Banking in relation to any possible disposal of shares by its controlling shareholder.

In our opinion, the recent announcements of Wing Hang Bank mentioned above may have contributed to the higher historical P/B of Wing Hang Bank compared to that of Dah Sing Banking.

The historical P/Bs of the Comparable Companies are approximately 1.0 times for Dah Sing Banking and approximately 1.8 times for Wing Hang Bank, with an average of approximately 1.4 times. The implied P/B of the Partial Offer as discussed above is approximately 2.1 times, which is 50% higher than the average of the Comparable Companies.

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(b) *Historical price to earnings (“P/E”) analysis*

The table below sets out the comparison of historical P/Es of CHB and the Comparable Companies:

Company	Market capitalisation as at the Latest Practicable Date <i>(Approximately HK\$’million)</i> <i>(Note 1)</i>	Audited consolidated net profits attributable to equity holders <i>(Approximately HK\$’million)</i> <i>(Note 2)</i>	Historical P/E <i>(Approximately times)</i> <i>(Note 3)</i>
Dah Sing Banking	16,443.0	1,410.6	11.7
Wing Hang Bank	35,968.7	1,802.4	20.0
Simple average			15.9
The Partial Offer			28.6 <i>(Note 4)</i>

Notes:

1. Market capitalisation figures of the Comparable Companies are sourced from Bloomberg.
2. Figures are extracted from the annual reports of the Comparable Companies for the year ended 31 December 2012, which are their latest available annual reports as at the Latest Practicable Date.
3. The historical P/Es of the Comparable Companies are calculated based on their latest audited consolidated net profits attributable to their equity holders set out in their respective 2012 annual reports and their closing market capitalisation as at the Latest Practicable Date.
4. The implied P/E of the Partial Offer is calculated based on the Offer Price of HK\$35.69 per CHB Share and the audited earnings per CHB Share for the year ended 31 December 2012 of HK\$1.25. CHB Shareholders should note that the Partial Offer only applies to 75% of the CHB Shares in issue.

As set out in the table above, the historical P/E of Dah Sing Banking is approximately 11.7 times and that of Wing Hang Bank is approximately 20.0 times, with an average of approximately 15.9 times. As noted in paragraph headed “(a) Historical price to book (“P/B”) analysis” above of this sub-section headed “Peer comparison”, Wing Hang Bank has made certain announcements of a possible sale, which has resulted in a share price increase and a higher P/E. The implied P/E of the Partial Offer as discussed above of approximately 28.6 times is significantly higher than the historical P/Es of the Comparable Companies.

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(c) *Dividend yield analysis*

The table below sets out the comparison of dividend yields of CHB and the Comparable Companies:

Company	Dividend yield <i>(Approximately)</i> <i>(Note 1)</i>
Dah Sing Banking	2.4%
Wing Hang Bank	1.8%
Simple average	2.1%
CHB	1.4% <i>(Note 2)</i>

Notes:

1. The dividend yields of the Comparable Companies are calculated based on (a) their respective closing share price as at the Latest Practicable Date; and (b) the aggregate of their respective final dividend declared for the year ended 31 December 2012 and interim dividend declared for 2013.
2. The implied dividend yield of CHB at the Offer Price is calculated based on (a) the Offer Price of HK\$35.69 per CHB Share; and (b) the aggregate of final dividend of CHB declared for the year ended 31 December 2012 of HK\$0.35 per CHB Share and interim dividend of CHB declared for 2013 of HK\$0.14 per CHB Share.

As set out in the table above, the dividend yield of Wing Hang Bank is approximately 1.8% and that of Dah Sing Banking is approximately 2.4%, with an average of approximately 2.1%. As noted in paragraph headed “(a) Historical price to book (“P/B”) analysis” above, Wing Hang Bank has made certain announcements of a possible sale, which has resulted in a share price increase and a higher dividend yield. The implied dividend yield of CHB, excluding the CHB Special Dividend, represented by the Offer Price of approximately 1.4% is below the dividend yields of the Comparable Companies.

The dividend yield of the Hang Seng Index was approximately 3.4% as at the Latest Practicable Date (source: Bloomberg). Accordingly, the dividend yields of Hang Seng Index, Dah Sing Banking and Wing Hang Bank are all higher than the implied dividend yield of CHB represented by the Offer Price. On this basis, accepting CHB Shareholders could, if they wished, reinvest the proceeds of accepting the Partial Offer in other listed Hong Kong companies to achieve a higher yield.

LETTER FROM SOMERLEY

4. Analysis of the price performance and trading liquidity of the CHB Shares

(a) *Price performance*

The Offer Price of HK\$35.69 per CHB Share under the Partial Offer represents:

- (i) a premium of approximately 59.0% over the closing price of HK\$22.45 per CHB Share as quoted on the Stock Exchange on 6 August 2013 (the “Undisturbed Price”), being the last trading day immediately prior to the announcement of 7 August 2013 issued jointly by LCHI and CHB (the “August Announcement”) in response to media reports regarding a possible disposal of interests in CHB with suspension of trading in the CHB Shares on 7 August 2013;
- (ii) a premium of approximately 43.7% over the average closing price of HK\$24.84 per CHB Share, being the average closing price of CHB Shares as quoted on the Stock Exchange for the 120 trading days immediately prior to and including the Last Trading Date;
- (iii) a premium of approximately 34.4% over the average closing price of HK\$26.56 per CHB Share, being the average closing price of CHB Shares as quoted on the Stock Exchange for the 90 trading days immediately prior to and including the Last Trading Date;
- (iv) a premium of approximately 21.2% over the average closing price of HK\$29.46 per CHB Share, being the average closing price of CHB Shares as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Last Trading Date;
- (v) a premium of approximately 8.5% over the average closing price of HK\$32.90 per CHB Share, being the average closing price of CHB Shares as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Last Trading Date;
- (vi) a premium of approximately 3.5% over the average closing price of HK\$34.47 per CHB Share, being the average closing price of CHB Shares as quoted on the Stock Exchange for the 10 trading days immediately prior to and including the Last Trading Date;
- (vii) a premium of approximately 1.0% over the average closing price of HK\$35.34 per CHB Share, being the average closing price of CHB Shares as quoted on the Stock Exchange for the 5 trading days immediately prior to and including the Last Trading Date; and
- (viii) a discount of approximately 4.6% to the closing price of HK\$37.40 per CHB Share as quoted on the Stock Exchange on the Last Trading Date.

The premium over the Undisturbed Price, ie. before any news of an offer, is approximately 59.0%. Following the August Announcement, the premium narrowed from about 44% to 1.0% as, in our view, the market became more confident that a deal would be struck.

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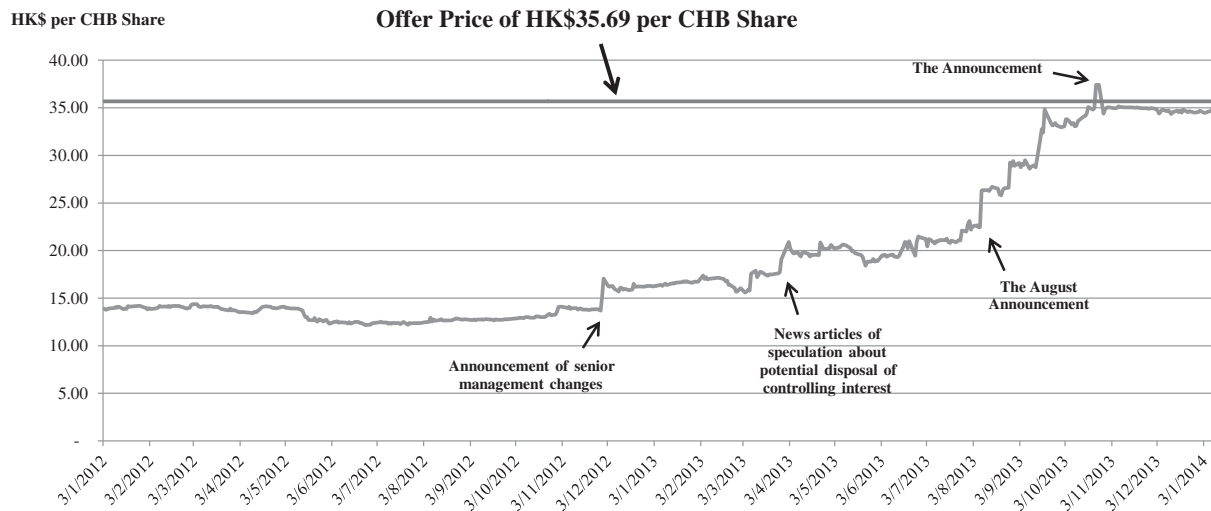
We consider that premiums over the Undisturbed Price of approximately 59.0%, or over the longer term average prices of 120 and 90 trading days immediately prior to and including the Last Trading Date of approximately 43.7% and 34.4%, respectively, are more relevant to the Independent CHB Shareholders than shorter terms for the purpose of comparing the CHB Share price with the Offer Price.

On the Latest Practicable Date, the closing price of the CHB Shares was HK\$35.40. The Offer Price of HK\$35.69 per CHB Share represents a premium of approximately 0.8% over the closing CHB Share price as at the Latest Practicable Date. The CHB Shareholders should bear in mind that the market price of the CHB Shares is currently traded cum the CHB Special Dividend of HK\$4.5195 per CHB Share. On the other hand, the Partial Offer does not guarantee the Qualifying CHB Shareholders a complete “exit” at HK\$35.69 per CHB Share if valid acceptances received under the Partial Offer exceed 326,250,000 CHB Shares.

(b) *Share price performance*

The closing price of CHB Share has been, in general, in an upward trend from 1 January 2013 to the Last Trading Date. In order to show a longer term perspective, we have selected the period from 1 January 2012 up to and including the Latest Practicable Date for review. Chart 1 below illustrates the daily closing price per CHB Share from 1 January 2012 up to and including the Latest Practicable Date, and Chart 2 below compares the CHB Share price performance with certain indices.

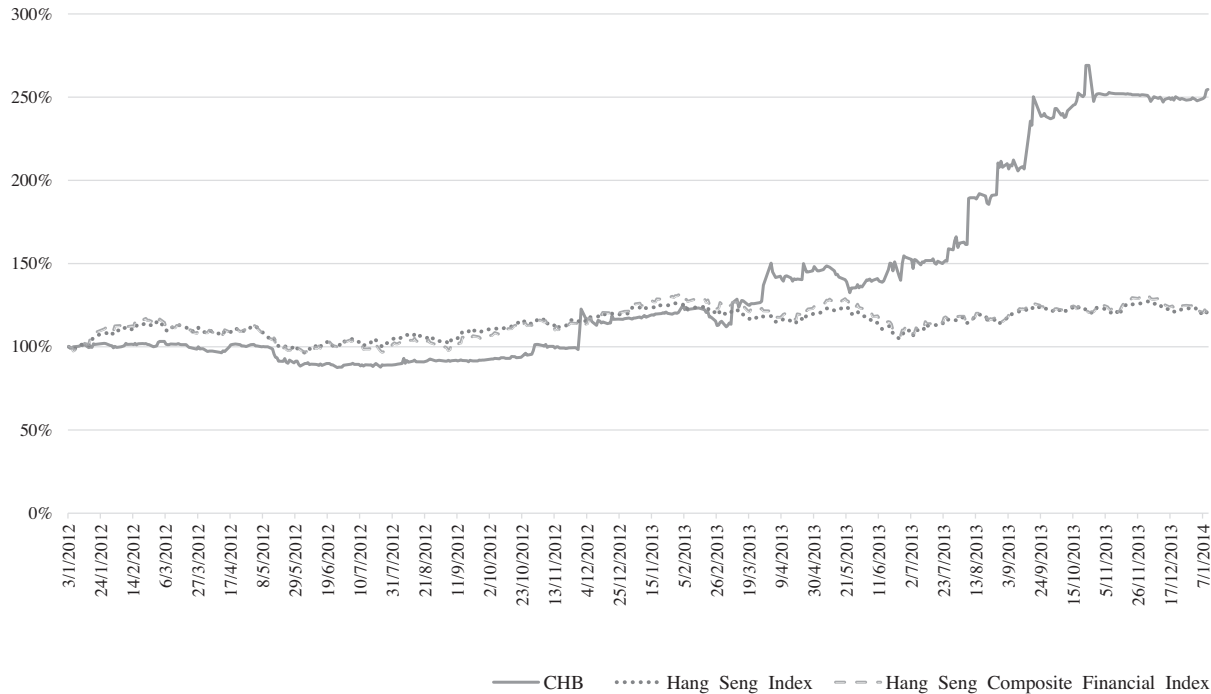
Chart 1: Share price chart



Source: Bloomberg

LETTER FROM SOMERLEY

Chart 2: Comparison of CHB Share performance with Hang Seng Index and Hang Seng Composite Financial Index



Source: Bloomberg

As illustrated in Chart 1 above, the closing prices of the CHB Shares were below the Offer Price for the period under review, except for recent price on the Last Trading Date in expectation of a possible offer. As illustrated in Chart 2 above, the fluctuation of the closing price of the CHB Shares was, in general, closely aligned with the overall market from 1 January 2012 until March 2013.

The closing price of the CHB Shares increased on 28 March 2013 and on 2 April 2013 reached HK\$20.90 per CHB Share. In an announcement dated 2 April 2013, the CHB Board noted news articles in local newspapers containing speculation about a potential disposal of a controlling interest in CHB. Although the CHB Board confirmed that it was not aware of any negotiations or agreements relating to such disposal, the price of the CHB Shares remained strong, fluctuating between HK\$18.42 and HK\$23.10 per CHB Share during the period from 3 April 2013 to 6 August 2013. The trading in the CHB Shares was suspended on 7 August 2013. On 7 August 2013, LCHI and CHB jointly issued the August Announcement and the CHB Share closing price rose from HK\$22.45 per CHB Share on 6 August 2013 (the last trading day immediately before suspension) to HK\$26.30 per CHB Share on 8 August 2013 when trading resumed. Several further announcements regarding the possible disposal of interests in CHB by its controlling shareholders were made between the period from 7 August 2013 and up to the Last Trading Date. On the Last Trading Date, the CHB Shares closed at HK\$37.40 per CHB Share.

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Trading in the CHB Shares was suspended before the Announcement. On 25 October 2013, Yuexiu, the Offeror, LCHI and CHB jointly published the Announcement of the Partial Offer at the Offer Price of HK\$35.69 per CHB Share and the CHB Special Dividend of HK\$4.5195 per CHB Share. After the Announcement and up to the Latest Practicable Date, the closing price of the CHB Shares fluctuated between HK\$34.35 and HK\$35.40 per CHB Share, which was close to the Offer Price. The CHB Shares closed at a price of HK\$35.40 per CHB Share as at the Latest Practicable Date.

In our opinion, the significant improvement in the CHB Share price since 8 August 2013 is due to market expectations of a disposal of the controlling interest in CHB.

(c) *Trading liquidity*

Set out in the table below are the monthly total trading volumes of the CHB Shares and the percentages of such monthly total trading volumes to the total issued share capital and the public float of CHB from 1 January 2012 up to and including the Latest Practicable Date:

	Monthly total trading volume of the CHB Shares (Note 1)	Percentage of the monthly total trading volume of the CHB Shares to the total issued CHB Shares (Note 2)	Percentage of the monthly total trading volume of the CHB Shares to the public float (Notes 2 & 3)
2012			
January	875,599	0.20%	0.68%
February	4,047,073	0.93%	3.12%
March	5,068,301	1.17%	3.91%
April	1,598,897	0.37%	1.23%
May	1,489,021	0.34%	1.15%
June	1,163,000	0.27%	0.90%
July	807,315	0.19%	0.62%
August	631,176	0.15%	0.49%
September	660,910	0.15%	0.51%
October	4,686,461	1.08%	3.71%
November	7,668,824	1.76%	6.14%
December	3,155,341	0.73%	2.53%
2013			
January	2,367,151	0.54%	1.89%
February	3,213,940	0.74%	2.57%
March	7,059,071	1.62%	5.65%
April	8,500,320	1.95%	6.80%

LETTER FROM SOMERLEY

	Monthly total trading volume of the CHB Shares <i>(Note 1)</i>	Percentage of the monthly total trading volume of the CHB Shares to the total issued CHB Shares <i>(Note 2)</i>	Percentage of the monthly total trading volume of the CHB Shares to the public float <i>(Notes 2 & 3)</i>
May	4,171,860	0.96%	3.34%
June	7,792,400	1.79%	6.23%
July	5,920,461	1.36%	4.74%
August	16,054,252	3.69%	12.85%
September	19,103,638	4.39%	15.29%
October	19,024,247	4.37%	15.22%
November	8,223,424	1.89%	6.58%
December	4,589,632	1.06%	3.67%

2014

From 1 January 2014 to the

Latest Practicable Date	2,265,040	0.52%	1.81%
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Notes:

1. Source: Bloomberg
2. The calculation is based on the monthly total trading volume of the CHB Shares divided by the total issued share capital of CHB or the total number of the CHB Shares in public hands at the end of each month (or at the Latest Practicable Date for January 2014).
3. The total number of the CHB Shares in public hands as at the end of each month (or at the Latest Practicable Date for January 2014) is advised by CHB.

As illustrated in the above table, during the period from January 2012 to July 2013, the monthly trading volume of the CHB Shares ranged between approximately 0.6 million CHB Shares and 8.5 million CHB Shares. This represents a trading volume of below (a) 2% of the total issued CHB Shares; and (b) 7% of the total issued CHB Shares in public hands, which we regard as relatively thin. Several announcements regarding the possible disposal of interests in CHB, in our view, stimulated the trading volume of the CHB Shares in August, September and October 2013.

In our opinion, the elevated August to October monthly trading volume was influenced by news about the Partial Offer. In our opinion, the Partial Offer represents a good opportunity for the CHB Shareholders to dispose of three quarters or more (depending on the level of acceptances by the Qualifying CHB Shareholders) of their holdings at a fixed cash price if they so wish.

LETTER FROM SOMERLEY

5. Intentions of the Offeror with regard to CHB

As stated in the “Letter from Nomura” contained in the Composite Document, the Offeror is committed to the stability of CHB’s business and operations after closing of the Partial Offer, and intends to maintain the branding and the name of “Chong Hing”, “創興” and “创兴” for a certain period of time. After closing of the Partial Offer, Yuexiu and the Offeror will further review the businesses of CHB, and determine what changes, if any, would be necessary, appropriate or desirable, long term and short term, in order to best organise and optimise the businesses and operations of CHB and to integrate the same within the Yuexiu Group.

It is expected that there will be changes in the board composition of CHB at or after the earliest time permitted under the Code or by the SFC. While it is the Offeror’s intention that the dividend policy of CHB will remain unchanged after closing of the Partial Offer, any dividends will be determined by the then CHB Directors according to the then prevailing circumstances taking into account CHB’s operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions, capital expenditures and future development requirements, the requirements of the HKMA, if applicable, the CHB Shareholders’ interests and other factors which they may deem relevant at such time. Any future declarations of dividends after closing of the Partial Offer may or may not reflect CHB’s historical declarations of dividends and will be at the absolute discretion of the then CHB Directors. There is no assurance that dividends of any amount will be declared or distributed in any year.

Subject to the statements relating to employees and the future raising of capital as set out in the section headed “Intentions of the Offeror with regard to CHB” in the “Letter from Nomura” contained in the Composite Document, the Offeror reserves the right to make any changes that it deems necessary or appropriate to CHB’s businesses and operations to generate maximum synergy and optimize the business and operations of CHB and to best integrate the same within the Yuexiu Group. Accordingly, there may be material changes in the financial or operational policies of the CHB Group which could affect its prospects after completion of the Partial Offer.

6. Maintenance of listing status

The Offeror intends to maintain the listing status of CHB following closing of the Partial Offer and expects CHB to continue to be subject to supervision and guidance from the HKMA, the SFC and the Stock Exchange.

The CHB Shareholders should be aware that, based on the shareholding table set out in the Announcement, if the Partial Offer is accepted in full by all Qualifying CHB Shareholders (i.e. assuming all Qualifying CHB Shareholders tender all of their CHB Shares for acceptance), approximately 12% of the CHB Shares (including those held by Bauhinia 97 Limited) are expected to be held by the public upon the closing of the Partial Offer. This is well below the 25% public float normally required under the Listing Rules.

LETTER FROM SOMERLEY

The Stock Exchange has stated that if at the close of the Partial Offer, less than the minimum prescribed percentage applicable to CHB, being 25% of the issued CHB Shares, are held by the public or if the Stock Exchange believes (i) that a false market exists or may exist in the trading of the CHB Shares or (ii) that there are insufficient CHB Shares in public hands to maintain an orderly market, trading in the CHB Shares may be suspended at the discretion of the Stock Exchange.

It is stated in the Announcement and “Letter from Nomura” contained in the Composite Document that pursuant to the LCHI Irrevocable Undertaking, if LCH Estate continues to be a substantial shareholder of CHB by virtue of the remaining CHB Shares held by LCH Estate, or is otherwise deemed to be a connected person (as defined in Chapter 1 of the Listing Rules) of CHB, immediately after the Final Closing Date, L. Holdings and Alba have undertaken to procure LCHI to reduce, and LCHI has agreed to reduce, the residual shareholding of LCH Estate in CHB by way of the LCHI Distribution in Specie or by the taking of such other steps as may be satisfactory to the Stock Exchange so that LCH Estate will cease to be a substantial shareholder and a connected person (as defined in Chapter 1 of the Listing Rules) of CHB for the purpose of CHB’s public float requirement under the Listing Rules.

It is further stated in the “Letter from Nomura” contained in the Composite Document that if after LCH Estate ceases to be a substantial shareholder and a connected person of CHB after closing of the Partial Offer, the public float of CHB still cannot be met, the Offeror will, after closing of the Partial Offer, take appropriate steps to ensure that not less than 25% of the CHB Shares will be held by the public in compliance with the Listing Rules, which may include the Offeror or another connected person of CHB selling some of its CHB Shares.

However, these may take some time to arrange.

7. The CHB Special Dividend

Conditional on completion of the Property Transfer under the Property Agreement (details of which are set out in the CHB Circular), CHB will distribute the proceeds of the Property Transfer less the unaudited carrying value of the Property as at 30 June 2013 (being approximately HK\$264 million) by way of the CHB Special Dividend of HK\$4.5195 in cash for each CHB Share. The CHB Special Dividend will be paid to all the CHB Shareholders registered as such on the Record Date.

The Record Date will be the date immediately prior to the Final Closing Date. This means that Qualifying CHB Shareholders who accept the Partial Offer will also receive the CHB Special Dividend in respect of the CHB Shares held by them on the Record Date. The Offeror will not be entitled to the CHB Special Dividend in respect of any CHB Shares which are validly accepted and taken up under the Partial Offer.

Accordingly, the CHB Shares are being acquired “ex-CHB Special Dividend” under the Partial Offer. The closing price of the CHB Shares of HK\$35.40 as at the Latest Practicable Date is equivalent to HK\$30.8805 ex-CHB Special Dividend.

LETTER FROM SOMERLEY

DISCUSSION AND ANALYSIS

(i) Features of the Partial Offer

The Partial Offer of HK\$35.69 in cash per CHB Share is being made for 326,250,000 CHB Shares (representing 75% of those in issue as at the date of the Announcement). Partial offers for Hong Kong listed companies are unusual, with only one other partial offer being announced in 2013, as far as we are aware. We understand that the main reason for the Partial Offer in this case is to assist the Offeror in maintaining the listing status of CHB. However, as mentioned above, if there are very heavy acceptances of the Partial Offer, there may be some initial difficulty in maintaining sufficient public float and temporary suspension of trading in the CHB Shares may occur.

The Partial Offer is now conditional only on acceptances being received in respect of at least 217,500,001 CHB Shares (i.e. just over 50% of the CHB Shares in issue as at the date of the Announcement). This should be achieved as shareholders related to LCHI have already undertaken to accept the Partial Offer in respect of more than this minimum number of CHB Shares.

One consequence of the Partial Offer is that if acceptances are received for over 326,250,000 CHB Shares, acceptances will be scaled down pro rata, so the CHB Shareholders accepting the Partial Offer will nonetheless retain some CHB Shares. Their remaining holdings will most probably include an odd lot (the board lot of CHB Shares is 1,000). Odd lots are generally less marketable than whole board lots and realisable at a lesser market value.

With this in mind, Computershare Hong Kong Investor Services Limited has been appointed to match sales and purchases of odd lot holdings on a best effort basis for a period of six weeks after the close of the Partial Offer. The matching of odd lots is not guaranteed.

It is stated in section headed "Expected timetable" of the Composite Document that the First Closing Date of the Partial Offer is 5 February 2014. Pursuant to the LCHI Irrevocable Undertaking, the Partial Offer will be accepted by LCH Estate in respect of all of the LCH Estate IU Shares not later than three business days (as defined in the Code) after the despatch date of the Composite Document. It is stated in the "Letter from Nomura" in the Composite Document that the Partial Offer is therefore expected to become unconditional prior to the 7th day after the date of the Composite Document. Pursuant to Rule 15.3 of the Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptances for not less than 14 days thereafter. Accordingly, if the Partial Offer is declared unconditional in all respects on or before the 7th day after the date of the Composite Document (which is expected to be the case provided LCH Estate tenders its acceptance of the Partial Offer in respect of all of the LCH Estate IU Shares under the LCHI Irrevocable Undertaking), then the Final Closing Date would be on (but no earlier than) the First Closing Date, being 21 days after the despatch date of the Composite Document.

Pursuant to Rule 28.4 of the Code, if the Partial Offer has been declared unconditional as to acceptances on the First Closing Date, the Offeror cannot extend the Final Closing Date to a day beyond the 14th day after the First Closing Date.

LETTER FROM SOMERLEY

(ii) Entitlement to the CHB Special Dividend of HK\$4.5195 per CHB Share

The CHB Special Dividend will be paid out of the surplus on the Property Transfer and is therefore conditional on the transfer being completed. Completion of the Property Transfer is in turn conditional on receipt by LCH Estate of the consideration in full for the LCH Estate IU Shares being taken up by the Offeror under the Partial Offer.

The Record Date for the CHB Special Dividend will be the date immediately before the Final Closing Date. Qualifying CHB Shareholders who accept the Partial Offer will receive the CHB Special Dividend in respect of their entire shareholding, whether taken up by the Offeror under the Partial Offer or not.

(iii) Financial performance and financial position of the CHB Group

Details of the financial performance and financial position of the CHB Group are set out in sub-section headed “Financial information and prospects of the CHB Group” under the section headed “Principal factors and reasons considered” of this letter above and in Appendix II to the Composite Document.

In summary, the results of the CHB Group for the years 2010-2012 and the six months ended 30 June 2013 show a steady performance, with modest elements of growth. The balance sheet shows a reasonably conservative position, with a loan-to-deposit ratio of just over 50% and a capital adequacy ratio of about 15%. We consider the share price of about HK\$23 per CHB Share before the August Announcement was supported by these fundamentals, but that the subsequent significant increase to about HK\$35 per CHB Share currently is due principally to the Partial Offer and the CHB Special Dividend.

(iv) Market price comparison and liquidity

As set out in the sub-section headed “Analysis of the price performance and trading liquidity of the CHB Shares” under the section headed “Principal factors and reasons considered” of this letter above, the Offer Price of HK\$35.69 per CHB Share represents premia over historical market prices on various bases. We consider that the premium over the Undisturbed Price and over the longer term average prices of 120 and 90 trading days immediately prior to and including the Last Trading Date provide the fairest comparisons for the purpose of assessing the Partial Offer. News of the possible offer came out gradually and, in our view, the market price of the CHB Shares was influenced as the probability of an offer increased. On these bases, the premia are:

Basis	Premium (%)
Over the Undisturbed Price	59.0
Over 120 trading days average	43.7
Over 90 trading days average	34.4

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We consider these premia are significant and fair and reasonable to the Qualifying CHB Shareholders in the context of the Partial Offer.

(v) **Historical P/B ratio**

The P/B ratio is one of the most commonly used yardsticks for judging valuations of banks, and by this standard the Partial Offer of HK\$35.69 looks attractive to the CHB Shareholders. It represents approximately 2.1 times the net assets per share at 30 June 2013 of approximately HK\$17.12 and compares favourably with the two comparables, Wing Hang Bank (approximately 1.8 times), itself influenced by news of a possible takeover, and Dah Sing Banking (approximately 1.0 times).

(vi) **Historical P/E ratio and dividend yield**

The Partial Offer terms also compare favourably on the grounds of P/E ratio and dividend yield, as follows:

	Historical P/E ratio <i>(times)</i>	Dividend Yield <i>(%)</i>
CHB at the Offer Price	28.6	1.4%
Wing Hang Bank	20.0	1.8%
Dah Sing Banking	11.7	2.4%

A higher P/E ratio indicates an attractive price for the Qualifying CHB Shareholders, whereas a lower dividend yield indicates that the Qualifying CHB Shareholders could accept the Partial Offer and reinvest the proceeds in similar shares at a higher yield.

OPINION AND RECOMMENDATION

Having taken into account the above principal factors set out in this letter and summarised in the section headed “Discussion and analysis” above, we consider that the terms of the Partial Offer (including the Offer Price) are fair and reasonable so far as the Independent CHB Shareholders are concerned and accordingly we advise the CHB Code Independent Board Committee to recommend the Independent CHB Shareholders to accept the Partial Offer.

Those Qualifying CHB Shareholders who, after considering the information on Yuexiu and the Offeror and the future intentions of the Offeror regarding the CHB Group, are attracted by the future prospects of the CHB Group following the Partial Offer, may consider retaining their CHB Shares or tendering less than all their CHB Shares under the Partial Offer. If acceptances are received in respect of more than 326,250,000 CHB Shares, not all CHB Shares tendered will be taken up under the Partial Offer, so Qualifying CHB Shareholders will continue to hold some CHB Shares in any event, unless they sell in the market.

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Some CHB Shareholders, particularly those holding a small number of board lots, who are concerned about the drawbacks of being left with an odd lot, may consider selling their CHB Shares in the market before the close of the Partial Offer to achieve a complete sale. Such CHB Shareholders should note however that if they sell in the market before the ex-entitlement date in respect of the CHB Special Dividend, they will not receive the CHB Special Dividend. Consequently, they should use caution when comparing the current price of the CHB Shares (and future prices up to the last day of dealings with entitlement to the CHB Special Dividend of HK\$4.5195), with the Offer Price of HK\$35.69, which does not include an entitlement to the CHB Special Dividend.

The procedures for acceptance of the Partial Offer, which is somewhat unusual in Hong Kong, are set out in Appendix I to the Composite Document and the accompanying Form of Acceptance. Qualifying CHB Shareholders are urged to read the timetable set out in the Composite Document and any revised timetable (if any) to be announced by the Offeror and CHB carefully and act accordingly if they wish to accept the Partial Offer.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M.N. Sabine **Richard Leung**
Chairman *Director*

* *The English translation of the Chinese name of 廣州越秀集團有限公司 is included in this letter for identification purpose only and should not be regarded as its official English translation. In event of any inconsistency, the Chinese name prevails.*

PROCEDURES FOR ACCEPTANCE AND SETTLEMENT**1. General procedures for acceptance of the Partial Offer**

For CHB Shares held in certificated form:

- 1.1. If the CHB Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) (if applicable) in respect of the CHB Shares is/are in the name of the Qualifying CHB Shareholder(s), and he/she/it wishes to accept the Partial Offer whether in full or in respect of part of his/her/its holding of CHB Shares, he/she/it should complete and return the accompanying Form of Acceptance in accordance with the instructions printed in this Composite Document and on the Form of Acceptance. The instructions in this Composite Document should be read together with the instructions on the Form of Acceptance (which instructions form part of the terms of the Partial Offer).
- 1.2. In order to be valid, the completed Form of Acceptance should be forwarded, together with the CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) for not less than the number of CHB Shares in respect of which the relevant Qualifying CHB Shareholder wishes to accept the Partial Offer, by post or by hand to the Share Registrar, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, in an envelope marked "Chong Hing Bank Limited — Partial Offer" as soon as possible after receipt of the Form of Acceptance but in any event so as to reach the Share Registrar by no later than 4:00 p.m. (Hong Kong time) on Wednesday, 5 February 2014, being the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve.
- 1.3. Unless the Partial Offer is extended or revised in accordance with the Code, no Form of Acceptance received after the Final Closing Date will be accepted.
- 1.4. If the Form of Acceptance is executed by a person other than the registered holder, appropriate documentary evidence of authority (e.g., a grant of probate or certified copy of a power of attorney) to the satisfaction of the Share Registrar must be delivered to the Share Registrar with the completed Form of Acceptance.
- 1.5. No acknowledgement of receipt of any Form of Acceptance, CHB Share certificate(s), transfer receipt(s) or other document(s) of title (and/or any indemnity or indemnities in respect thereof) (if applicable) will be given.

For CHB Shares held in CCASS:

- 1.6. In relation to any acceptance(s) of the Partial Offer in respect of CHB Shares held in CCASS, CHB reserves the right to make such alterations, additions or modifications to the terms of the Partial Offer as may be necessary or desirable to give effect to any purported

acceptance of the Partial Offer, whether to comply with the facilities or requirements of CCASS or otherwise, provided such alterations, additions or modifications are consistent with the requirements of the Code and any applicable laws and regulations or are otherwise made with the Executive's consent.

2. Take-up of CHB Shares under the Partial Offer

2.1. **Qualifying CHB Shareholders may accept the Partial Offer in respect of some or all of the CHB Shares held by them.** Subject to the Partial Offer becoming unconditional in all respects: (i) if valid acceptances are received for 326,250,000 or fewer CHB Shares, all CHB Shares validly accepted will be taken up; and (ii) if valid acceptances are received for more than 326,250,000 CHB Shares, the total number of CHB Shares to be taken up by the Offeror from each Qualifying CHB Shareholder will be determined in accordance with the following formula:

$$\frac{A}{B} \times C$$

A: 326,250,000 CHB Shares (being the maximum number of CHB Shares for which the Partial Offer is made)

B: the total number of CHB Shares tendered by all Qualifying CHB Shareholders under the Partial Offer

C: the number of CHB Shares tendered by the relevant individual Qualifying CHB Shareholder under the Partial Offer

2.2. As a result, it is possible that if a Qualifying CHB Shareholder tenders all his/her/its CHB Shares for acceptance under the Partial Offer, not all of such CHB Shares will be taken up. Qualifying CHB Shareholders can, however, be assured that, in the event the Partial Offer becomes unconditional in all respects, a minimum of 75 per cent. of the CHB Shares tendered for acceptance under the Partial Offer will be taken up.

2.3. Fractions of CHB Shares will not be taken up under the Partial Offer and, accordingly, the number of CHB Shares that the Offeror will take up from each Qualifying CHB Shareholder in accordance with the above formula will be rounded up or down to the nearest whole number at the discretion of the Offeror.

3. Nominee holdings

3.1. If the CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) in respect of a Qualifying CHB Shareholder's CHB Share(s) is/are in the name

of a nominee company or some name other than his/her/its own, and such Qualifying CHB Shareholder wishes to accept the Partial Offer (either in full or in respect of part of his/her/its holding(s) of CHB Shares), he/she/it must either:

- (a) lodge the CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) with the nominee company, or other nominee, with instructions authorising it to accept the Partial Offer on his/her/its behalf and requesting it to deliver the Form of Acceptance duly completed and signed together with the relevant CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) to the Share Registrar, within such deadline (which may be earlier than the deadline specified under the Partial Offer) as may be stipulated by the nominee; or
 - (b) arrange for the CHB Shares to be registered in his/her/its name by CHB through the Share Registrar, and send the Form of Acceptance duly completed and signed together with the relevant CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) to the Share Registrar before 4:00 p.m. on Wednesday, 5 February 2014, being the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve; or
 - (c) where his/her/its CHB Shares have been deposited in CCASS via his/her/its licensed securities dealer/broker/custodian bank, instruct his/her/its licensed securities dealer/broker/custodian bank to authorise HKSCC Nominees Limited to accept the Partial Offer on his/her/its behalf on or before the deadline set by HKSCC Nominees Limited or any other date as shall be determined by HKSCC Nominees Limited. In order to meet the deadline set by HKSCC Nominees Limited, that Qualifying CHB Shareholder should check with his/her/its licensed securities dealer/broker/custodian bank for the timing on processing his/her/its instruction, and submit such instruction to his/her/its licensed securities dealer/broker/custodian bank as required by them; or
 - (d) if the CHB Shares have been lodged with his/her/its investor participant account with CCASS, authorise his/her/its instruction via the CCASS phone system or CCASS internet system no later than one business day before the deadline set by HKSCC Nominees Limited or any other date as shall be determined by HKSCC Nominees Limited.
- 3.2. Qualifying CHB Shareholders with a nominee holding of CHB Shares should ensure that they undertake the above applicable course of action promptly to allow their nominee(s) sufficient time to complete the acceptance procedure on his/her/its behalf before the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve.

4. Timing of acceptances under the Partial Offer

Pursuant to Rule 15.3 of the Code, where a conditional offer becomes or is declared unconditional (whether as to acceptances or in all respects), it should remain open for acceptances for not less than 14 days thereafter. Accordingly, if the Partial Offer is declared unconditional in all respects on or before the 7th day after the date of this Composite Document (which is expected to be the case provided LCH Estate tenders its acceptance of the Partial Offer in respect of all of the LCH Estate IU Shares under the LCHI Irrevocable Undertaking), then the Final Closing Date would be on (but no earlier than) the First Closing Date, being 21 days after the despatch date of the Composite Document.

5. Recent transfers

- 5.1. If a Qualifying CHB Shareholder has lodged transfer(s) of CHB Shares for registration in his/her/its name and has not yet received the CHB Share certificate(s) and wishes to accept the Partial Offer, he/she/it should nevertheless complete and sign the Form of Acceptance and deliver it to the Share Registrar together with the transfer receipt(s) duly signed by him/her/it. Such action will be deemed to be an irrevocable authority to Yuexiu, the Offeror and/or Nomura and/or any of their respective agent(s) or such other person(s) as any of them may direct for the purpose of collecting from CHB or the Share Registrar on his/her/its behalf the relevant CHB Share certificate(s) when issued and to deliver such CHB Share certificate(s), subject to the terms of the Partial Offer, as if it was/they were delivered to the Share Registrar with the Form of Acceptance.

6. Lost or unavailable share certificates

- 6.1. If the CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost and a Qualifying CHB Shareholder wishes to accept the Partial Offer, the Form of Acceptance should nevertheless be completed, signed and delivered, together with a letter stating that he/she/it has lost one or more of his/her/its CHB Share certificate(s) and/or transfer receipts and/or other document(s) of title or that it/they is/are not readily available, to the Share Registrar so as to reach the Share Registrar no later than 4:00 p.m. on Wednesday, 5 February 2014, being the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve. If the Qualifying CHB Shareholder finds such document(s) or if it/they become available, the relevant CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) should be forwarded to the Share Registrar as soon as possible thereafter and in any event no later than 4:00 p.m. on Wednesday, 5 February 2014, being the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve.

6.2. In addition, if a Qualifying CHB Shareholder has lost his/her/its CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title, he/she/it should also write to the Share Registrar and request a letter of indemnity in respect of the lost CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (as the case may be) which, when completed in accordance with the instructions given, should be returned, together with the Form of Acceptance and any CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title which are available, to the Share Registrar either by post or by hand, so as to arrive not later than 4:00 p.m. on Wednesday, 5 February 2014 being the First Closing Date or such later time and/or date as the Offeror may decide and announce and the Executive may approve. In such cases, the Qualifying CHB Shareholder will be informed of the fees and/or expenses payable to the Share Registrar for which he/she/it will be responsible. The Offeror shall have the absolute discretion to decide whether any CHB Shares in respect of which the CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost will be taken up by the Offeror.

7. Additional Forms of Acceptance

7.1. If a Qualifying CHB Shareholder has lost the accompanying Form of Acceptance or such original has become unusable, and requires a replacement of such form, he/she/it should write to the Share Registrar or visit the Share Registrar at its office and request an additional Form of Acceptance for completion by such Qualifying CHB Shareholder. Alternatively, he/she/it could download it from the website of the Stock Exchange at www.hkexnews.hk or the website of CHB at www.chbank.com.

8. Settlement

8.1. Provided that the Partial Offer becomes or is declared unconditional in all respects and a duly completed Form of Acceptance and the relevant documents required to tender the relevant acceptance under the Partial Offer are received by the Share Registrar by no later than 4:00 p.m. on Wednesday, 5 February 2014, being the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve, and are in good order in all respects and in accordance with the Code, the Share Registrar will send to the relevant accepting CHB Shareholder by ordinary post, at his/her/its own risk, (a) a remittance for the amount due to him/her/it under the Partial Offer (taking into account any scaling down of his/her/its acceptance, seller's ad valorem stamp duty payable by the relevant accepting CHB Shareholder and, if applicable, the fees payable to the Share Registrar in respect of lost or unavailable CHB Share certificates; and (b) (if applicable) any CHB Share certificate(s) and/or any transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities in respect thereof) (if applicable) for CHB Shares not taken up by the Offeror, in each case, as soon as possible but in any event within seven business days (as defined in the Code) following the Final Closing Date.

- 8.2. Settlement of the consideration to which any accepting CHB Shareholder is entitled under the Partial Offer will be implemented in full in accordance with the terms of the Partial Offer (save with respect to payment of seller's ad valorem stamp duty as set out in paragraph 8.1 above) without regard to any lien, right of set-off, counterclaim, or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such accepting CHB Shareholder.
- 8.3. No fractions of a cent will be payable and the amount of cash consideration payable to an accepting CHB Shareholder will be rounded up to the nearest cent.
- 8.4. Cheque(s) not presented for payment within six months from the date of issue of the cheque will not be honoured and be of no further effect, and in such circumstances, cheque holder(s) should contact the Offeror for payment.
- 8.5. If the Partial Offer does not become unconditional in all respects, the CHB Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities in respect thereof) (as the case may be) will be returned and/or sent to each accepting CHB Shareholder (by ordinary post at his/her/its own risk) as soon as possible but in any event within 10 days following the lapse of the Partial Offer. Where such accepting CHB Shareholder has sent one or more transfer receipt(s) and in the meantime one or more CHB Share certificate(s) have been collected on that accepting CHB Shareholder's behalf in respect thereof, that accepting CHB Shareholder will be sent (by ordinary post at his/her/its own risk) such CHB Share certificate(s) in lieu of the transfer receipt(s).

9. New shareholders

- 9.1. Any new CHB Shareholder may collect a copy of this Composite Document, together with a blank Form of Acceptance from the Share Registrar at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong during the period from the date of this Composite Document to the Final Closing Date (both days inclusive), between 9:00 a.m. and 4:00 p.m. (Hong Kong time) from Monday to Friday (other than public holidays). Such CHB Shareholder may also contact the Share Registrar (through the enquiry general telephone line at +852 2862 8648) and request a copy of this Composite Document and a blank Form of Acceptance (as appropriate) to be sent to his/her/its registered address as recorded in the Register.

EFFECT OF ACCEPTANCE OF THE PARTIAL OFFER

By validly accepting the Partial Offer, Qualifying CHB Shareholders will sell to the Offeror their tendered CHB Shares which are finally taken up by the Offeror in accordance with the formula set out in the section headed "Other terms of the Partial Offer" in the letter from Nomura free from all encumbrances and together with all rights and benefits accruing and attaching thereto as at or after the Final Closing Date including all rights to any dividend or other distributions declared, made or paid on or after the Final Closing Date (excluding the CHB Special Dividend). The Offeror will not be

entitled to any dividends or other distributions declared, made or paid before the Final Closing Date, including the CHB Special Dividend, in respect of the CHB Shares which are taken up by the Offeror under the Partial Offer. Any such dividends or other distributions will be paid to the CHB Shareholders who are qualified for such dividends or distributions.

Each Qualifying CHB Shareholder by whom, or on whose behalf, a Form of Acceptance is executed irrevocably agrees with Yuexiu, the Offeror and Nomura (so as to bind him/her/it, his/her/its personal representatives, heirs, successors and assigns) to the following effect:

1. Irrevocable acceptances

That the Form of Acceptance which has been duly completed and received by the Share Registrar will constitute irrevocable acceptance of the Partial Offer in respect of the number of the CHB Shares inserted in Box A of the Form of Acceptance and subject to the terms and conditions set out in this Composite Document, except in the circumstances that the Executive requires that such accepting CHB Shareholder is granted a right to withdraw in accordance with Rule 19.2 of the Code.

Rule 19.2 of the Code relates to failure to announce the results of the Partial Offer as set out in the section headed “Announcements” in this Appendix and provides that the Executive may require that accepting CHB Shareholders be granted a right of withdrawal, on terms acceptable to the Executive, until the requirements of Rule 19 of the Code can be met.

If acceptance of the Partial Offer is withdrawn by the accepting CHB Shareholders with the consent of the Executive in accordance with the Code, the Offeror shall, as soon as possible but in any event within 10 days thereof, return the relevant CHB Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) in respect of such number of CHB Shares lodged with the Form of Acceptance to the relevant accepting CHB Shareholder(s) by ordinary post.

2. Representations and warranties

- (a) That if he/she/it is a resident or a citizen of a jurisdiction outside Hong Kong, he/she/it hereby represents and warrants that (i) all local laws and requirements in connection with such acceptance have been complied with and (ii) the Partial Offer can be accepted by such Qualifying CHB Shareholder under the laws and regulations of the relevant jurisdiction and such acceptance shall be valid and binding in accordance with all applicable laws and regulations. Qualifying CHB Shareholders should consult their professional advisers if in doubt.
- (b) That acceptance of the Partial Offer by any persons will be deemed to constitute a warranty by such persons to Yuexiu, the Offeror and Nomura that he/she/it has full power and authority to tender, sell, assign and transfer all the CHB Shares (together with all rights accruing or attaching thereto) specified in such Form of Acceptance under the Partial Offer and that the CHB Shares acquired under the Partial Offer are fully paid and sold by any such persons free from all liens, charges, options, claims, equities, adverse interests, third party

rights or encumbrances whatsoever and together with all rights and benefits accruing and attaching thereto as at or after the Final Closing Date including all rights to any dividend or other distributions declared, made or paid on or after the Final Closing Date (excluding the CHB Special Dividend).

3. Appointment and authority

That due execution of the Form of Acceptance constitutes:

an irrevocable instruction to any director or officer of Yuexiu, the Offeror or Nomura, or such other person as any of them may direct to complete and execute the Form of Acceptance and/or any other document on behalf of the person accepting the Partial Offer and to do any other acts or things (such as, among others, due execution of instruments of transfer to effect transfers of CHB Shares accepted by the Offeror pursuant to the Partial Offer to the Offeror and to tender the relevant CHB Share certificate(s) for cancellation) as may be necessary, expedient or desirable for the purpose of the Offeror to acquire some or all of the CHB Shares (as the Offeror may in its absolute discretion determine in accordance with the formula as set out in the section headed "Other terms of the Partial Offer" in the letter from Nomura in this Composite Document in respect of which such person has accepted the Partial Offer).

4. Undertakings

That by executing the Form of Acceptance, he/she/it:

- (a) undertakes to deliver to the Share Registrar the CHB Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if applicable) in respect of the CHB Shares for which the Partial Offer is accepted, or an indemnity or indemnities acceptable to the Offeror in lieu thereof, or to procure the delivery of such document(s) to the Share Registrar as soon as possible thereafter and, in any event, no later than 4:00 p.m. on Wednesday, 5 February 2014, being the First Closing Date, or such later time and/or date as the Offeror may decide and announce and the Executive may approve;
- (b) undertakes to do all such acts and things and execute all such deeds and documents as may be necessary to carry into effect or to give legal effect to his/her/its acceptance of the Partial Offer, including, without limitation, to acquire any CHB Shares in respect of which he/she/it has accepted the Partial Offer free from all liens, charges, options, claims, equities, adverse interests, third parties rights or encumbrances whatsoever and together with all rights and benefits accruing and attaching thereto as at or after the Final Closing Date including all rights to any dividend or other distributions declared, made or paid on or after the Final Closing Date (excluding the CHB Special Dividend) and/or to perfect any of the authorities expressed to be given hereunder.

5. General

That:

- (a) The provisions of the Form of Acceptance and the other terms and conditions in this Composite Document are deemed to be incorporated into the terms and conditions of the Partial Offer.
- (b) The Offeror or such other person as the Offeror may direct is authorised to despatch by post the consideration to which the Qualifying CHB Shareholder is entitled at his/her/its risk to the address of the registered CHB Shareholder or the first-named of joint registered CHB Shareholders on the Register or, if different, to the name and address of the person as specified on the Form of Acceptance.
- (c) In making their decisions, the Qualifying CHB Shareholders must rely on their own examination of the CHB Group and the terms of the Partial Offer including the merits and risks involved. The contents of this Composite Document, including any general advice or recommendation contained herein, together with the Forms of Acceptance, shall not be construed as any legal or business advice on the part of Yuexiu, the Offeror, CHB, LCHI, Nomura, UBS, or their respective professional advisers (other than the CHB Independent Financial Adviser). CHB Shareholders should consult their own professional advisers for professional advice in relation to their decisions.
- (d) The Qualifying CHB Shareholders may accept the Partial Offer by completing the Form of Acceptance in accordance with the instructions set out in the Form of Acceptance (which constitute part of the terms of the Partial Offer). A Form of Acceptance may be rejected as invalid if the procedures contained in this Composite Document and in the Form of Acceptance are not complied with.
- (e) The Partial Offer and all acceptances of it, the Form of Acceptance and all contracts made pursuant to the Partial Offer, and all action taken or made or deemed to be taken or made pursuant to these terms will be governed by and construed in accordance with Hong Kong laws. Delivery of a Form of Acceptance will constitute submission to the non-exclusive jurisdiction of the Hong Kong courts.
- (f) The accidental omission to despatch, or the failure of any person to receive this Composite Document or the Form of Acceptance will not invalidate any aspect of the Partial Offer. Extra prints of these documents are available to any Qualifying CHB Shareholder at the office of the Share Registrar during the period from the date of this Composite Document to the Final Closing Date (both days inclusive), between 9:00 a.m. and 4:00 p.m. (Hong Kong time) from Monday to Friday (other than public holidays), and on the Stock Exchange's website at www.hkexnews.hk and CHB's website at www.chbank.com.

- (g) The Offeror reserves the right, subject to the Code, any applicable law or regulatory requirements and the requirements of the Executive, to amend the Offer Price or other terms of the Partial Offer. In the event of such amendment, a supplemental document and new Form of Acceptance will be despatched to the Qualifying CHB Shareholders. Any revised Partial Offer will be kept open for at least 14 days following the date on which the revised offer document is posted. If in the course of the Partial Offer, the Offeror revises the terms of the Partial Offer, all Qualifying CHB Shareholders, whether they have accepted the Partial Offer or not, will be entitled to the revised terms.
- (h) The right of acceptance of the Partial Offer is personal to the Qualifying CHB Shareholders and is not capable of being assigned or renounced in favour of others or otherwise transferred by the Qualifying CHB Shareholders.
- (i) Subject to (i) the terms of the Partial Offer as set out in this Composite Document; (ii) the provisions of the Code; and (iii) any requirements of the Executive, the Offeror shall determine the calculation of the number of CHB Shares to be taken up by the Offeror from each accepting CHB Shareholder, the Offer Price to be paid therefor, whether an acceptance tendered fully complies with the terms of the Partial Offer and all other questions as to the validity, form and eligibility (including the time of receipt) of an acceptance (provided that this is determined consistently with the requirement of the Code or otherwise with the Executive's consent). In the absence of manifest error, such a determination by the Offeror shall be conclusive.
- (j) All communications, notices, the Form(s) of Acceptance, CHB Share certificate(s), transfer receipt(s), other document(s) of title (and/or any indemnity or indemnities in respect thereof) and remittances to be delivered or sent by, to or from any CHB Shareholders will be delivered or sent by, to and from them, or their designated agents, at their own risks and none of Yuexiu, the Offeror, CHB, LCHI, Nomura, UBS, the Share Registrar or any of their respective directors or professional advisers or any other person involved in the Partial Offer accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.

OVERSEAS CHB SHAREHOLDERS

This Composite Document will not be filed under the applicable securities or equivalent legislation or rules of any jurisdiction other than Hong Kong.

Based on the Register as at the Latest Practicable Date, there are 12 overseas CHB Shareholders holding 12,712 CHB Shares, in aggregate, with registered addresses in Australia, Canada, the PRC, the United Kingdom, Japan, Macau and Panama, which are jurisdictions outside Hong Kong. The shareholding of the Excluded Shareholder represents approximately 0.00022% of the total issued share capital of CHB as at the Latest Practicable Date. The Offeror has sought legal advice from its PRC legal advisers. Based on the advice of the Offeror's PRC legal advisers, it would be in contravention of the laws of the PRC if the Partial Offer is extended to the Excluded Shareholder. It would therefore be unduly burdensome for the Offeror to extend the Partial Offer to the Excluded Shareholder for the purpose of Note 3 to Rule 8 of the Code. Based on the advice of the Offeror's PRC legal advisers, the

Offeror will only send this Composite Document (but not the Form of Acceptance), together with the Overseas Letter, to the Excluded Shareholder for his/her information only. The Offeror has applied for a waiver pursuant to Note 3 to Rule 8 of the Code that the Partial Offer will not be made to the Excluded Shareholder in the PRC.

The Partial Offer is in respect of a company incorporated and listed in Hong Kong and is therefore subject to the procedure and disclosure requirements of laws, regulatory and rules in Hong Kong which may be different to those in other jurisdictions. The ability of Qualifying CHB Shareholders who are citizens, residents or nationals of jurisdictions outside of Hong Kong to participate in the Partial Offer may be subject to the laws and regulations of the relevant jurisdictions. Such Qualifying CHB Shareholders may be prohibited from participating in the Partial Offer. It is the responsibility of each such Qualifying CHB Shareholder to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant jurisdiction in connection therewith, including obtaining any governmental, exchange control or other consents, or filing and registration and the payment of any transfer or other taxes due from such Qualifying CHB Shareholder in such relevant jurisdictions.

Any acceptance of the Partial Offer by any Qualifying CHB Shareholder will be deemed to constitute a representation and warranty from such Qualifying CHB Shareholder to the Offeror and CHB (i) that all local laws and requirements in connection with such acceptance have been complied with and (ii) the Partial Offer can be accepted by such Qualifying CHB Shareholder under the laws and regulations of the relevant jurisdiction and such acceptance shall be valid and binding in accordance with all applicable laws and regulations. Qualifying CHB Shareholders should consult their professional advisers if in doubt.

TAXATION

Qualifying CHB Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their acceptance of the Partial Offer. It is emphasized that none of Yuexiu, the Offeror, CHB, LCHI and their ultimate beneficial owners and parties acting in concert with any of them, Nomura, UBS, the Share Registrar or any of their respective directors or professional advisers or any persons involved in the Partial Offer accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the Partial Offer.

ANNOUNCEMENTS

The announcement of the results of the Partial Offer will be jointly issued by Yuexiu, the Offeror and CHB and posted on the website of the Stock Exchange by 7:00 p.m. on the Final Closing Date. Such announcement will comply with the disclosure requirements under Rule 19.1 and Note 7 to Rule 19 of the Code and will include, among other things, the results of the Partial Offer and details of the way in which each accepting CHB Shareholder's pro-rata entitlement was determined.

In any announcement of an extension of the Partial Offer, either the next closing date must be stated or, if the Partial Offer is unconditional in all respects, a statement may be made that the Partial Offer will remain open for acceptance for 14 days thereafter in accordance with the Code. Pursuant

to Rule 28.4 of the Code, the Offeror cannot extend the Final Closing Date. If the Partial Offer becomes or is declared unconditional in all respects by no later than the date falling 7 days following the despatch date of this Composite Document, the Offeror shall be entitled to make an announcement to the effect that the Partial Offer will close for acceptance on the date falling 21 days following the despatch date of this Composite Document.

The results announcements shall specify the total number of CHB Shares:

- (a) for which acceptances of the Partial Offer have been received;
- (b) held, controlled or directed by the Offeror or parties acting in concert with it before the Offer Period; and
- (c) acquired or agreed to be acquired during the Offer Period by the Offeror or any parties acting in concert with it.

The results announcements must include the details of the way in which each of the accepting CHB Shareholder's pro-rata entitlement was/is to be determined in compliance with Note 7 to Rule 19 of the Code.

The results announcements must include details of any relevant securities (as defined under Note 4 to Rule 22 of the Code) of CHB which the Offeror or any parties acting in concert with it has borrowed or lent, save for any borrowed CHB Shares which have been either on-lent or sold.

The results announcements shall include the percentages of the relevant classes of share capital of the Company, and the percentages of voting rights, represented by these numbers.

If the Offeror, any parties acting in concert with it or its advisers make any statement about the level of acceptances or the number or percentage of accepting CHB Shareholders during the Offer Period, then the Offeror must make an immediate announcement in compliance with Note 2 to Rule 19 of the Code.

As required under the Code and the Listing Rules, all announcements in relation to the Partial Offer in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, will be published on the websites of the SFC, the Stock Exchange and CHB.

INTERPRETATION

A reference in this Composite Document to a Qualifying CHB Shareholder includes a reference to a person(s) who, by reason of an acquisition or transfer of CHB Shares, is entitled to execute a Form of Acceptance and in the event of more than one person executing a Form of Acceptance, the provisions of this Composite Document apply to them jointly and severally.

A reference in this Composite Document and the Form of Acceptance to the Partial Offer shall include any extension and/or revision thereof.

A reference in this Composite Document and the Form of Acceptance to the masculine gender includes the feminine and neuter genders, and a reference to the singular includes the plural, and vice versa.

I. SUMMARY OF FINANCIAL INFORMATION OF THE CHB GROUP

The following is a summary of the audited financial results of the CHB Group for each of the three years ended 31 December 2010, 2011 and 2012 and the unaudited financial results of the CHB Group for each of the six months ended 30 June 2012 and 2013. The figures for the years ended 31 December 2011 and 2012 are extracted from the 2012 annual report of CHB. The figures for the year ended 31 December 2010 are extracted from the 2011 annual report of CHB. The figures for each of the six months ended 30 June 2012 and 2013 are extracted from the 2013 interim report of CHB. The auditor's reports prepared by Deloitte Touche Tohmatsu in respect of the CHB Group's financial statements for each of the three years ended 31 December 2010, 2011 and 2012 did not contain any qualification.

	Six months ended 30 June 2013 HK\$'000	Six months ended 30 June 2012 HK\$'000	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2011 HK\$'000	Year ended 31 December 2010 HK\$'000
Interest income	762,101	782,675	1,563,820	1,369,989	1,178,582
Interest expense	(286,363)	(382,124)	(726,912)	(554,668)	(362,455)
Net interest income	475,738	400,551	836,908	815,321	816,127
Fee and commission income	140,228	122,059	253,949	276,257	291,763
Fee and commission expenses	(34,351)	(30,182)	(64,584)	(58,534)	(51,589)
Net fee and commission income	105,877	91,877	189,365	217,723	240,174
Net (losses) gains on financial instruments at fair value through profit or loss	(116,056)	28,358	57,473	(102,418)	23,752
Net (losses) gains on fair value hedge	(262)	727	1,200	(20,679)	13,294
Other operating income	228,147	122,660	237,835	404,855	158,134
Operating expenses	(358,253)	(387,075)	(788,591)	(773,555)	(711,935)
	335,191	257,098	534,190	541,247	539,546
(Impairment allowance) reversal of impairment allowances on loans and advances	(17,592)	34,432	65,228	107,188	(17,785)
Net losses on disposal of property and equipment	(978)	(8)	(1,861)	(4,128)	(79)
Net gains on disposal of available-for-sale securities	51	468	594	697	14,445
Net gains on disposal of and fair value adjustments on investment properties	4,237	6,646	12,206	9,065	15,895
Impairment loss on available-for-sale securities	—	—	—	(4,473)	(2,739)
Share of profits of associates	8,348	10,387	36,028	18,056	19,036

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	Six months ended 30 June 2013 HK\$'000	Six months ended 30 June 2012 HK\$'000	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2011 HK\$'000	Year ended 31 December 2010 HK\$'000
Profit before taxation	329,257	309,023	646,385	667,652	568,319
Taxation	<u>(52,950)</u>	<u>(49,274)</u>	<u>(103,045)</u>	<u>(106,936)</u>	<u>(90,404)^(Note 1)</u>
Profit for the period/year	<u>276,307</u>	<u>259,749</u>	<u>543,340</u>	<u>560,716</u>	<u>477,915^(Note 1)</u>
Interim dividend declared	60,900 ^(Note 2)	47,850	47,850	65,250	43,500
Final dividend declared	—	—	152,250	152,250	152,250
Dividend	<u>60,900^(Note 2)</u>	<u>47,850</u>	<u>200,100</u>	<u>217,500</u>	<u>195,750</u>
	HK\$	HK\$	HK\$	HK\$	HK\$
Earnings per share — basic	<u>0.64^(Note 2)</u>	<u>0.60</u>	<u>1.25</u>	<u>1.29</u>	<u>1.10</u>

Notes:

- (1) CHB Group had applied the amendments to HKAS 12 “Deferred tax: Recovery of underlying assets” retrospectively in its annual financial statements for 2012. The application of the amendments to HKAS 12 has resulted in CHB Group not recognising any deferred taxes on changes in fair value of CHB Group’s investment properties located in Hong Kong as CHB Group is not subject to any income taxes on disposal of those investment properties. The retrospective application of this change in accounting policy has resulted in CHB Group’s taxation for the year ended 31 December 2010 being restated to HK\$90,404,000 and the profit for the year ended 31 December 2010 being restated to HK\$477,915,000.
- (2) Excluding the CHB Special Dividend.

For the three years ended 31 December 2010, 2011 and 2012, dividends have been declared and there were no minority interests. For the three years ended 31 December 2010, 2011 and 2012, total dividends of HK\$0.30 per CHB Share, HK\$0.50 per CHB Share and HK\$0.46 per CHB Share, respectively, were paid. Save for the items set out below, the CHB Group had no items for each of the three years ended 31 December 2010, 2011 or 2012 which were exceptional because of size, nature or incidence:

- (a) the recovery of amounts from the underlying collaterals of Lehman Brothers minibonds in 2011 as further disclosed on page II-120 of this Composite Document; and
- (b) the recovery of HK\$170 million in 2011 from a delinquent borrower for a secured loan that had previously been written-off.

II. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE CHB GROUP

The following is the full text of the unaudited condensed consolidated financial statements of the CHB Group for the six months ended 30 June 2013 (the “**Interim Financial Statements**”) as extracted from the interim report of CHB for the six months ended 30 June 2013. Capitalised terms used in the Interim Financial Statements have the meanings ascribed to them in the Interim Financial Statements.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2013

	Notes	Six months ended	
		30 June	
		2013	2012
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Interest income		762,101	782,675
Interest expense		(286,363)	(382,124)
Net interest income	6	475,738	400,551
Fee and commission income		140,228	122,059
Fee and commission expenses		(34,351)	(30,182)
Net fee and commission income	7	105,877	91,877
Net (losses) gains on financial instruments at fair value through profit or loss	8	(116,056)	28,358
Net (losses) gains on fair value hedge	8	(262)	727
Other operating income	9	228,147	122,660
Operating expenses	10	(358,253)	(387,075)
		335,191	257,098
Impairment allowances on loans and advances			
- New allowances		(28,269)	(4,716)
- Amounts reversed		10,677	39,148
		(17,592)	34,432
Net losses on disposal of property and equipment		(978)	(8)
Net gains on disposal of available-for-sale securities		51	468
Net gains on disposal of and fair value adjustments on investment properties	20	4,237	6,646
Share of profits of associates		8,348	10,387
Profit before taxation		329,257	309,023
Taxation	12		
- Hong Kong		(43,691)	(39,828)
- Overseas		(9,093)	(9,006)
- Deferred tax		(166)	(440)
		(52,950)	(49,274)
Profit for the period - attributable to owners of the Bank		276,307	259,749
Earnings per share - basic	13	HK\$0.64	HK\$0.60

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

for the six months ended 30 June 2013

	Six months ended	
	30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Profit for the period	<u>276,307</u>	<u>259,749</u>
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	8,268	(3,628)
Fair value (losses) gains on available-for-sale securities arising during the period	(70,701)	66,158
Share of other comprehensive (expense) income of associates	(230)	250
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(51)	(468)
Income tax effect relating to disposal of available-for-sale securities	8	77
Income tax effect relating to fair value change of available-for-sale securities	<u>11,873</u>	<u>(10,733)</u>
Other comprehensive (expenses) income for the period (net of tax)	<u>(50,833)</u>	<u>51,656</u>
Total comprehensive income for the period	<u><u>225,474</u></u>	<u><u>311,405</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Bank	<u><u>225,474</u></u>	<u><u>311,405</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2013

		30 June 2013	31 December 2012
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Assets			
Cash and short-term funds	15	11,960,197	17,331,877
Placements with banks and other financial institutions maturing between one to twelve months		8,423,633	4,789,513
Derivative financial instruments	16	107,669	187,911
Financial assets at fair value through profit or loss	17	91,350	1,213,410
Available-for-sale securities	17	4,567,204	4,222,217
Held-to-maturity securities	17	11,556,974	9,600,020
Advances and other accounts	19	43,665,018	42,109,218
Interests in associates		186,888	182,970
Investment properties	20	136,162	135,318
Property and equipment	21	913,939	928,380
Prepaid lease payments for land	22	2,417	2,423
Deferred tax assets	27	1,475	1,502
Goodwill	11	50,606	50,606
Total assets		<u>81,663,532</u>	<u>80,755,365</u>
Liabilities			
Deposits and balances of banks and other financial institutions		2,080,049	1,843,477
Financial assets sold under repurchase agreements	23	437,349	433,681
Deposits from customers	24	68,755,915	67,508,748
Certificates of deposit	25	177,511	667,636
Derivative financial instruments	16	194,445	248,656
Other accounts and accruals		707,528	740,229
Current tax liabilities		57,449	16,327
Loan capital	26	1,794,150	1,898,957
Deferred tax liabilities	27	11,832	23,574
Total liabilities		<u>74,216,228</u>	<u>73,381,285</u>
Equity attributable to owners of the Bank			
Share capital		217,500	217,500
Reserves		7,229,804	7,156,580
Total equity		<u>7,447,304</u>	<u>7,374,080</u>
Total liabilities and equity		<u>81,663,532</u>	<u>80,755,365</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2013

		Share capital	Share premium	Goodwill	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013		217,500	1,542,817	(182)	187,327	1,388,500	26,236	387,000	3,624,882	7,374,080
Profit for the period		—	—	—	—	—	—	—	276,307	276,307
Other comprehensive (expense) income for the period		—	—	—	(59,101)	—	8,268	—	—	(50,833)
Total comprehensive (expense) income for the period		—	—	—	(59,101)	—	8,268	—	276,307	225,474
Final dividend for financial year 2012	14	—	—	—	—	—	—	—	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve		—	—	—	—	—	—	36,000	(36,000)	—
At 30 June 2013 (unaudited)		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>128,226</u>	<u>1,388,500</u>	<u>34,504</u>	<u>423,000</u>	<u>3,712,939</u>	<u>7,447,304</u>
At 1 January 2012		217,500	1,542,817	(182)	33,807	1,388,500	21,648	408,000	3,260,642	6,872,732
Profit for the period		—	—	—	—	—	—	—	259,749	259,749
Other comprehensive income (expense) for the period		—	—	—	55,284	—	(3,628)	—	—	51,656
Total comprehensive income (expense) for the period		—	—	—	55,284	—	(3,628)	—	259,749	311,405
Final dividend for financial year 2011	14	—	—	—	—	—	—	—	(152,250)	(152,250)
Release of regulatory reserve to retained profits		—	—	—	—	—	—	(12,000)	12,000	—
At 30 June 2012 (unaudited)		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>89,091</u>	<u>1,388,500</u>	<u>18,020</u>	<u>396,000</u>	<u>3,380,141</u>	<u>7,031,887</u>

The retained profits of the Group included retained profits of HK\$70,712,000 (30 June 2012: retained profits of HK\$48,283,000) retained by the associates of the Group.

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2013

	Six months ended 30 June	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Profit before taxation	329,257	309,023
Adjustments for:		
Net interest income	(475,738)	(400,551)
Net charge (reversal) of impairment allowances on loans and advances	17,592	(34,432)
Net losses on disposal of property and equipment	978	8
Net gains on disposal of available-for-sale securities	(51)	(468)
Net gains on disposal of and fair value adjustments on investment properties	(4,237)	(6,646)
Share of profits of associates	(8,348)	(10,387)
Net losses (gains) on fair value hedge	262	(727)
Dividend income from investments	(5,246)	(6,036)
Depreciation	27,787	29,175
Release of prepaid lease payments for land	33	33
Exchange adjustments	8,745	(5,170)
Operating cash flows before movements in operating assets and liabilities	(108,966)	(126,178)
Decrease (increase) in operating assets:		
Money at call and short notice with original maturity over three months	1,332,145	263,579
Exchange fund bills with original maturity over three months	50,028	(56)
Placements with banks and other financial institutions with original maturity over three months	(4,116,070)	(661,431)
Financial assets at fair value through profit or loss	1,122,060	329,766
Bills receivable	(76,519)	10,376
Trade bills	(206,910)	101,568
Other advances to customers	(3,149,892)	1,004,711
Advances to banks and other financial institutions	1,746,471	(2,152,219)
Other accounts	63,246	(72,184)
(Decrease) increase in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	(771,531)	1,388,924
Financial assets sold under repurchase agreements	3,668	(53,677)
Deposits from customers	1,247,167	193,295
Certificates of deposit	(490,125)	70,015
Derivative financial instruments	39,156	(88,161)
Other accounts and accruals	(13,113)	70,034

	Six months ended	
	30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Cash (used in) generated from operations	(3,329,185)	278,362
Hong Kong Profits Tax paid	(2,486)	(5,640)
Overseas tax paid	(9,176)	(9,006)
Interest received	641,460	622,913
Interest paid	(273,295)	(324,545)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<u>(2,972,682)</u>	<u>562,084</u>
INVESTING ACTIVITIES		
Interest received on available-for-sale securities and held-to-maturity securities	170,783	112,589
Dividends received on investments	5,246	6,036
Dividends received from associates	4,200	—
Purchase of held-to-maturity securities	(12,987,556)	(10,512,040)
Purchase of available-for-sale securities	(535,943)	(1,048,593)
Purchase of property and equipment	(14,479)	(62,141)
Proceeds from redemption of held-to-maturity securities	11,030,602	8,101,919
Proceeds from sale and redemption of available-for-sale securities	199	468
Proceeds from disposals of property and equipment	199	3
Proceeds from disposal of investment properties	3,927	4,316
NET CASH USED IN INVESTING ACTIVITIES	<u>(2,322,822)</u>	<u>(3,397,443)</u>
FINANCING ACTIVITIES		
Interest paid on loan capital	(31,806)	(32,820)
Dividends paid	(152,250)	(152,250)
NET CASH USED IN FINANCING ACTIVITIES	<u>(184,056)</u>	<u>(185,070)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,479,560)	(3,020,429)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>14,868,955</u>	<u>17,092,730</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u><u>9,389,395</u></u>	<u><u>14,072,301</u></u>
Represented by:		
Cash and balances with banks and other financial institutions	3,597,412	5,646,106
Money at call and short notice with original maturity of three months or less	6,489,238	6,466,078
Exchange fund bills with original maturity of three months or less	49,999	1,799,972
Placements with banks and other financial institutions with original maturity of three months or less	827,166	1,462,188
Deposits and balances of banks and other financial institutions with original maturity of three months or less	(1,574,420)	(1,302,043)
	<u><u>9,389,395</u></u>	<u><u>14,072,301</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2013

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are relevant for the preparation of the Group’s condensed consolidated financial statements:

- HKFRS 13 Fair Value Measurement;
- Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income;
- Amendments to HKFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities; and
- Amendments to HKFRSs Annual Improvements to HKFRSs 2009-2011 Cycle

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for “fair value” and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information of financial instruments are set out in note 4.

Amendments to HKAS 1

Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for the “statement of comprehensive income” and the “income statement”. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income” and an “income statement” is renamed as a “statement of profit or loss”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to HKFRS 7

Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. Disclosures are set out in note 5.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

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

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

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

Six months ended 30 June 2013

	Corporate and retail banking	Treasury activities	Securities business	Others	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income from external customers	501,680	258,484	1,937	—	—	762,101
Interest expense to external customers	(238,428)	(47,935)	—	—	—	(286,363)
Inter-segment interest income (Note 1)	116,010	—	—	—	(116,010)	—
Inter-segment interest expense (Note 1)	—	(116,010)	—	—	116,010	—
Net interest income	379,262	94,539	1,937	—	—	475,738
Fee and commission income	75,788	—	64,440	—	—	140,228
Fee and commission expenses	(34,150)	—	(201)	—	—	(34,351)
Net gains (losses) on financial instruments at fair value through profit or loss	257	(116,268)	—	(45)	—	(116,056)
Net losses on fair value hedge	—	(262)	—	—	—	(262)

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	Corporate and retail banking	Treasury activities	Securities business	Others	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other operating income	<u>45,015</u>	<u>158,881</u>	<u>—</u>	<u>24,251</u>	<u>—</u>	<u>228,147</u>
Segment revenue						
Total operating income	<u>466,172</u>	<u>136,890</u>	<u>66,176</u>	<u>24,206</u>	<u>—</u>	<u>693,444</u>
Comprising:						
- segment revenue from external customers	350,162	252,900	66,176	24,206		
- inter-segment transactions	116,010	(116,010)	—	—		
Operating expenses (<i>Note 2</i>)	(224,714)	(15,010)	(31,932)	(5,441)	—	(277,097)
Net charge of impairment allowances on loans and advances	(17,592)	—	—	—	—	(17,592)
Net losses on disposal of property and equipment	(978)	—	—	—	—	(978)
Net gains on disposal of available-for-sale securities	—	—	—	51	—	51
Net gains on disposal of and fair value adjustments on investment properties	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,237</u>	<u>—</u>	<u>4,237</u>
Segment profit	<u>222,888</u>	<u>121,880</u>	<u>34,244</u>	<u>23,053</u>	<u>—</u>	<u>402,065</u>
Unallocated corporate expenses						(81,156)
Share of profits of associates						<u>8,348</u>
Profit before taxation						<u>329,257</u>

Notes:

1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.
2. The difference between the operating expenses in the condensed consolidated statement of profit or loss and the operating expenses in the operating segments is the unallocated corporate expenses.

APPENDIX II**FINANCIAL INFORMATION OF THE CHB GROUP****As at 30 June 2013**

	Corporate and retail banking	Treasury activities	Securities business	Others	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets					
Segment assets	47,417,846	32,976,737	269,528	444,050	81,108,161
Interests in associates					186,888
Unallocated corporate assets					<u>368,483</u>
Consolidated total assets					<u><u>81,663,532</u></u>
Liabilities					
Segment liabilities	69,037,905	4,743,555	196,649	77,287	74,055,396
Unallocated corporate liabilities					<u>160,832</u>
Consolidated total liabilities					<u><u>74,216,228</u></u>

Other information**Six months ended 30 June 2013**

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

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP
Six months ended 30 June 2012

	Corporate and retail banking	Treasury activities	Securities business	Others	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income from external customers	503,064	278,642	969	—	—	782,675
Interest expense to external customers	(289,973)	(92,151)	—	—	—	(382,124)
Inter-segment interest income <i>(Note 1)</i>	123,363	—	—	—	(123,363)	—
Inter-segment interest expense <i>(Note 1)</i>	—	(123,363)	—	—	123,363	—
Net interest income	336,454	63,128	969	—	—	400,551
Fee and commission income	65,368	—	56,691	—	—	122,059
Fee and commission expenses	(29,885)	—	(297)	—	—	(30,182)
Net gains on financial instruments at fair value through profit or loss	218	28,105	—	35	—	28,358
Net gains on fair value hedge	—	727	—	—	—	727
Other operating income	39,960	60,328	—	22,372	—	122,660
Segment revenue						
Total operating income	412,115	152,288	57,363	22,407	—	644,173
Comprising:						
- segment revenue from external customers	288,752	275,651	57,363	22,407		
- inter-segment transactions	123,363	(123,363)	—	—		
Operating expenses <i>(Note 2)</i>	(230,296)	(14,289)	(32,904)	(5,225)	—	(282,714)
Net reversal of impairment allowances on loans and advances	34,432	—	—	—	—	34,432
Net losses on disposal of property and equipment	—	—	—	(8)	—	(8)
Net gains on disposal of available-for-sale securities	—	—	—	468	—	468
Net gains on disposal of and fair value adjustments on investment properties	—	—	—	6,646	—	6,646
Segment profit	216,251	137,999	24,459	24,288	—	402,997
Unallocated corporate expenses						(104,361)
Share of profits of associates						10,387
Profit before taxation						309,023

Notes:

1. Inter-segment pricing for funding transactions is charged at prevailing customer deposits interest rates.
2. The difference between the operating expenses in the condensed consolidated statement of profit or loss and the operating expenses in the operating segments is the unallocated corporate expenses.

As at 31 December 2012

	Corporate and retail banking <i>HK\$'000</i>	Treasury activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Assets					
Segment assets	48,290,655	31,156,460	232,982	437,396	80,117,493
Interests in associates					182,970
Unallocated corporate assets					454,902
Consolidated total assets					<u>80,755,365</u>
Liabilities					
Segment liabilities	67,818,689	5,172,703	174,138	65,204	73,230,734
Unallocated corporate liabilities					150,551
Consolidated total liabilities					<u>73,381,285</u>

Other information

Six months ended 30 June 2012

	Corporate and retail banking <i>HK\$'000</i>	Treasury activities <i>HK\$'000</i>	Securities business <i>HK\$'000</i>	Others <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital expenditure	27,903	55	234	36	33,913	62,141
Depreciation	17,673	802	2,856	36	7,808	29,175
Release of prepaid lease payments forland	<u>33</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>33</u>

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent while segments' other operating income is allocated depending on the nature of costs incurred. Costs and support functions' costs and income related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses and unallocated corporate income respectively. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of performance.

There is no operating income with a single external customer amounting to or exceeding 10% of the Group's total operating income.

APPENDIX II**FINANCIAL INFORMATION OF THE CHB GROUP**

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

Geographical information

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

	Six months ended 30 June 2013			As at 30 June 2013			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	637,458	284,557	13,709	79,580,719	73,628,936	17,995,003	1,276,982
Macau and Shantou, Mainland China	47,639	39,429	268	1,472,070	535,647	457,745	12,396
America	8,347	5,271	502	610,743	51,645	89,364	601
Total	<u>693,444</u>	<u>329,257</u>	<u>14,479</u>	<u>81,663,532</u>	<u>74,216,228</u>	<u>18,542,112</u>	<u>1,289,979</u>

	Six months ended 30 June 2012			As at 31 December 2012			
	Total operating income	Profit before taxation	Capital expenditure during the period	Total assets	Total liabilities	Total contingent liabilities and commitments	Non-current assets
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	591,532	267,533	61,841	78,627,449	72,677,568	18,599,496	1,286,546
Macau and Shantou, Mainland China	44,782	36,361	291	1,533,533	631,873	372,143	12,915
America	7,859	5,129	9	594,383	71,844	10,383	170
Total	<u>644,173</u>	<u>309,023</u>	<u>62,141</u>	<u>80,755,365</u>	<u>73,381,285</u>	<u>18,982,022</u>	<u>1,299,631</u>

Note: Total operating income consists of net interest income, net fee and commission income, net gains (losses) on financial instruments at fair value through profit or loss, net gains (losses) on fair value hedge and other operating income.

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

4. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the condensed consolidated statement of financial position

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table and paragraph give information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 30 June 2013

	Fair value hierarchy			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Financial assets held for trading	201	—	—	201
Financial assets designated at fair value through profit or loss	—	91,149	—	91,149
Available-for-sale securities				
Equity securities	195,126	—	1,451	196,577
Other debt securities	—	4,330,389	4,169	4,334,558
Derivative financial assets not used for hedging	—	2,359	—	2,359
Derivative financial assets used for hedging	—	105,310	—	105,310
Derivative financial liabilities not used for hedging	—	(140,291)	—	(140,291)
Derivative financial liabilities used for hedging	—	(54,154)	—	(54,154)
Total	<u>195,327</u>	<u>4,334,762</u>	<u>5,620</u>	<u>4,535,709</u>

There were no transfers between Levels 1, 2 and 3 during the six-month period ended 30 June 2013.

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

At 30 June 2013

	Carrying value	Fair value
	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets		
- Held-to-maturity securities	<u>11,556,974</u>	<u>11,570,770</u>
Financial liabilities		
- Loan capital	<u>1,794,150</u>	<u>1,771,024</u>

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

The fair values of convertible bonds designated as financial assets at fair value through profit or loss, debt securities classified as available-for-sale securities, held-to-maturity securities and loan capital are calculated based on indicative prices provided by pricing service provider, dealers, brokers and other service providers. Valuation models using discounted cash flows are derived to substantiate the indicative prices of the debt securities. Inputs to valuation models are determined from observable market interest rate data, whenever possible.

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

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

Reconciliation of Level 3 fair value measurements of financial assets as at 30 June 2013

	Financial assets designated at fair value through profit or loss HK\$'000	Available- for-sale securities HK\$'000	Total HK\$'000
Balance at 1 January 2013	419,101	2,711	421,812
Total net losses recognised in profit or loss	(493)	—	(493)
Total net gains recognised in other comprehensive income	—	2,909	2,909
Disposals	<u>(418,608)</u>	<u>—</u>	<u>(418,608)</u>
Balance at 30 June 2013	<u>—</u>	<u>5,620</u>	<u>5,620</u>

Included in other comprehensive income is an amount of HK\$2,909,000 related to equity and other debt securities classified as available-for-sale held at the end of the current reporting period and reported as fair value gains on available-for-sale securities arising during the period.

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

5. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group has financial assets and financial liabilities that:

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

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

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

6. NET INTEREST INCOME

	Six months ended	
	30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income		
Balances and placements with banks and other financial institutions	119,853	168,401
Investments in securities	146,717	135,176
Loans and advances	481,028	435,549
Interest rate swaps	<u>14,503</u>	<u>43,549</u>
	<u>762,101</u>	<u>782,675</u>
Interest expense		
Deposits and balances from banks and customers	(244,436)	(299,790)
Financial assets sold under repurchase agreements	(928)	(3,759)
Certificates of deposit	(2,408)	(17,861)
Loan capital	(31,761)	(33,653)
Interest rate swaps	<u>(6,830)</u>	<u>(27,061)</u>
	<u>(286,363)</u>	<u>(382,124)</u>
Net interest income	<u>475,738</u>	<u>400,551</u>
Included within interest income		
Interest income on impaired loans and advances	<u>99</u>	<u>312</u>

Included within interest income and interest expense are HK\$749,420,000 (2012: HK\$735,029,000) and HK\$279,533,000 (2012: HK\$355,063,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$146,717,000 (2012: HK\$135,176,000).

7. NET FEE AND COMMISSION INCOME

	Six months ended 30 June	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Fee and commission income		
Securities dealings	64,440	56,691
Credit lines	7,799	7,445
Trade finance	5,829	5,425
Credit card services	37,137	32,863
Agency services	17,219	12,095
Others	7,804	7,540
Total fee and commission income	140,228	122,059
Less: Fee and commission expenses	<u>(34,351)</u>	<u>(30,182)</u>
Net fee and commission income	<u>105,877</u>	<u>91,877</u>
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities, that are not held for trading nor designed at fair value through profit or loss		
- fee income	54,289	50,438
- fee expenses	<u>(33,956)</u>	<u>(29,645)</u>
	<u>20,333</u>	<u>20,793</u>

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

	Six months ended 30 June	
	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Net (losses) gains on financial instruments at fair value through or loss		
- designated at fair value through profit or loss (<i>Note 1</i>)	(76,898)	(59,825)
- held for trading (<i>Note 2</i>)	<u>(39,158)</u>	<u>88,183</u>
	<u>(116,056)</u>	<u>28,358</u>
Net (losses) gains on fair value hedge		
- net losses on hedged items attributable to the hedged risk	(13,387)	(21,004)
- net gains on hedging instruments	<u>13,125</u>	<u>21,731</u>
	<u>(262)</u>	<u>727</u>

Notes:

1. The net losses on financial instruments designated at fair value through profit or loss in both periods were primarily attributable to the changes in fair value of the structured products and the convertible bonds.
2. The net (losses) gains mainly related to foreign currency forward contracts, interest rate swaps and a cross-currency interest rate swap held for trading. Details of the outstanding contracts are set out in note 16. The net losses for the six months ended 30 June 2013 included revaluation losses on the foreign currency forward contracts of HK\$124 million which should be offset by net exchange gains and net gains from foreign currency contracts of HK\$159 million included under other operating income. The Bank entered into these contracts mainly to exchange surplus funds from customer deposits in Australian dollars and New Zealand dollars into United States dollars, which created the spot positions, and placed them in the interbank market to earn extra return for the Bank. The foreign exchange risk was covered by entering into foreign currency forward contracts which matched the maturity dates of the interbank placements. The spot positions and forward contracts were revalued and disclosed separately as required by the accounting standards.

9. OTHER OPERATING INCOME

	Six months ended	
	30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividend income		
- Listed investments	2,446	3,336
- Unlisted investments	2,800	2,700
	5,246	6,036
Net exchange gains and net gains from foreign currency contracts	158,881	60,328
Gross rents from investment properties	8,452	6,028
Less: Outgoings	(543)	(524)
Net rental income	7,909	5,504
Safe deposit box rentals	19,072	16,366
Insurance underwriting premium less claims and commission expense	11,095	10,616
Other banking services income	24,411	22,220
Others	1,533	1,590
	<u>228,147</u>	<u>122,660</u>

10. OPERATING EXPENSES

	Six months ended	
	30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditor's remuneration	2,033	1,950
Staff costs (including directors' emoluments)		
- Salaries and other costs	214,506	209,466
- Retirement benefits scheme contributions	15,508	15,189
Total staff costs	230,014	224,655
Depreciation	27,787	29,175
Release of prepaid lease payments for land	33	33
Premises and equipment expenses, excluding depreciation/ release of prepaid lease payments for land:		
- Rentals and rates for premises	20,430	21,574
- Others	9,568	10,629
Other operating expenses	68,388	99,059
	<u>358,253</u>	<u>387,075</u>

Included in the premises and equipment expenses are minimum lease payments under operating leases of HK\$16,842,000 (2012: HK\$18,138,000).

11. IMPAIRMENT LOSS ON GOODWILL

For the six-month period ended 30 June 2013, the management has reviewed goodwill for impairment testing purposes. The review comprised a comparison of the carrying amount and the value in use of an acquired subsidiary (the cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in the insurance business.

The value in use calculations primarily use cash flow projections based on the five-year financial budgets approved by the management of the subsidiary and with a stable growth beyond the five-year projection period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and estimated value. Key assumptions include the expected growth in revenues (growth rate at 3.5% to 4%) and the selection of the discount rate of 12% (2012: 12%).

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

The management of the Group determines that there was no impairment loss on the goodwill for the six-month period ended 30 June 2013 and 30 June 2012.

12. TAXATION

Hong Kong Profits Tax is calculated at 16.5% (2012: 16.5%) of the estimated assessable profit for the period.

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

13. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$276,307,000 (2012: HK\$259,749,000) and on 435,000,000 (2012: 435,000,000) ordinary shares in issue during the period.

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

14. DIVIDENDS

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

On 24 May 2012, a dividend of HK\$0.35 per share totalling HK\$152,250,000 was paid to shareholders as the final dividend for 2011.

Subsequent to the end of the interim period, the board of directors has declared that a total amount of interim dividend in respect of the financial year ending 31 December 2013 of HK\$60,900,000 (2012: HK\$47,850,000) at a rate of HK\$0.14 (2012: HK\$0.11) per share should be paid to the shareholders of the Bank whose names appear in the Register of Members on 19 September 2013.

15. CASH AND SHORT-TERM FUNDS

	30 June 2013	31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and balances with banks and other financial institutions	3,597,412	6,060,810
Money at call and short notice	8,064,296	10,472,554
Exchange fund bills	298,489	798,513
	<u>11,960,197</u>	<u>17,331,877</u>

16. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2013		
	Notional amount	Fair values	
		Assets	Liabilities
		<i>HK\$'000</i>	<i>HK\$'000</i>
Derivatives held for trading			
- Foreign currency forward contracts	5,015,635	760	129,106
- Interest rate swaps	170,000	1,599	11,185
Derivatives designated as hedging instruments			
- Interest rate swaps	5,809,619	105,310	47,573
- Cross-currency interest rate swaps	233,306	—	6,581
		<u>107,669</u>	<u>194,445</u>
	31 December 2012		
	Notional amount	Fair values	
		Assets	Liabilities
		<i>HK\$'000</i>	<i>HK\$'000</i>
Derivatives held for trading			
- Foreign currency forward contracts	6,037,758	16,584	21,380
- Interest rate swaps	796,280	4,562	95,192
- Cross-currency interest rate swap	36,040	—	1,582
Derivatives designated as hedging instruments			
- Interest rate swaps	5,286,864	166,765	120,792
- Cross-currency interest rate swaps	233,306	—	9,710
		<u>187,911</u>	<u>248,656</u>

As at 30 June 2013, the currencies of foreign currency forward buy contracts mainly comprise Hong Kong dollars and Australian dollars (2012: Hong Kong dollars and Australian dollars) and the currencies of foreign currency forward sale contracts mainly comprise United States dollars (2012: Renminbi and United States dollars). As at 30 June 2013 and 31 December 2012, all of these contracts have a settlement date within one year from the end of the reporting period.

17. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	
30 June 2013					
Equity securities:					
Listed in Hong Kong	201	—	186,465	—	186,666
Listed overseas	—	—	8,661	—	8,661
	201	—	195,126	—	195,327
Unlisted	—	—	37,520	—	37,520
	201	—	232,646	—	232,847
Debt securities:					
Certificates of deposit	—	—	—	6,865,282	6,865,282
Convertible bonds	—	91,149	—	—	91,149
Other debt securities					
- Unlisted	—	—	4,334,558	4,691,692	9,026,250
	—	91,149	4,334,558	11,556,974	15,982,681
Total:					
Listed in Hong Kong	201	—	186,465	—	186,666
Listed overseas	—	—	8,661	—	8,661
Unlisted	—	91,149	4,372,078	11,556,974	16,020,201
	201	91,149	4,567,204	11,556,974	16,215,528
Market value of listed securities:					
Listed in Hong Kong	201	—	186,465	—	186,666
Listed overseas	—	—	8,661	—	8,661
	201	—	195,126	—	195,327
As analysed by issuing entities:					
Central governments and central banks	—	—	—	5,740	5,740
Public sector entities	—	—	55,525	191,759	247,284
Banks and other financial institutions	40	—	356,334	9,836,141	10,192,515
Corporate entities	161	91,149	4,149,413	1,523,334	5,764,057
Others	—	—	5,932	—	5,932
	201	91,149	4,567,204	11,556,974	16,215,528

	Financial assets at fair value through profit or loss				Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000	Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	
31 December 2012					
Equity securities:					
Listed in Hong Kong	261	—	184,012	—	184,273
Listed overseas	—	—	9,055	—	9,055
	<u>261</u>	<u>—</u>	<u>193,067</u>	<u>—</u>	<u>193,328</u>
Unlisted	—	—	35,610	—	35,610
	<u>261</u>	<u>—</u>	<u>228,677</u>	<u>—</u>	<u>228,938</u>
Debt securities:					
Certificates of deposit	—	—	—	3,693,321	3,693,321
Structured products	—	419,101	—	—	419,101
Convertible bonds	—	794,048	—	—	794,048
Other debt securities					
- Unlisted	—	—	3,993,540	5,906,699	9,900,239
	<u>—</u>	<u>1,213,149</u>	<u>3,993,540</u>	<u>9,600,020</u>	<u>14,806,709</u>
Total:					
Listed in Hong Kong	261	—	184,012	—	184,273
Listed overseas	—	—	9,055	—	9,055
Unlisted	—	1,213,149	4,029,150	9,600,020	14,842,319
	<u>261</u>	<u>1,213,149</u>	<u>4,222,217</u>	<u>9,600,020</u>	<u>15,035,647</u>
Market value of listed securities:					
Listed in Hong Kong	261	—	184,012	—	184,273
Listed overseas	—	—	9,055	—	9,055
	<u>261</u>	<u>—</u>	<u>193,067</u>	<u>—</u>	<u>193,328</u>
As analysed by issuing entities:					
Central governments and central banks	—	—	—	3,382	3,382
Public sector entities	—	—	56,016	196,401	252,417
Banks and other financial institutions	43	419,101	353,885	7,809,345	8,582,374
Corporate entities	218	794,048	3,807,796	1,590,892	6,192,954
Others	—	—	4,520	—	4,520
	<u>261</u>	<u>1,213,149</u>	<u>4,222,217</u>	<u>9,600,020</u>	<u>15,035,647</u>

For the equity securities classified as available-for-sale financial instruments, accumulated impairment losses in respect of such equity securities as at 30 June 2013 amounting to HK\$44,879,000 (2012: HK\$44,879,000) have been provided by the Group.

All structured products have been disposed during the six months ended 30 June 2013. As at 31 December 2012, included in structured products were credit linked notes of HK\$419,101,000. The credit linked notes held by the Group bore three-month LIBOR with spreads ranging from 1.3% to 2.0% per annum and maturity dates ranging from 2015 to 2016. The note issuers were not obligated to repay the debt to the Group if the reference entities (rated A1 or above by Moody's as at 31 December 2012) defaulted.

Unlisted equity securities classified as available-for-sale held by the Group amounting to HK\$36,069,000 (2012: HK\$35,571,000) are measured at cost less impairment at the end of the reporting period because the range of reasonable fair estimate is so significant that the management are of the opinion that the fair values cannot be measured reliably, and the management has no plan to dispose the unlisted equity securities. No impairment has been recognised in respect of these securities.

Certain held-to-maturity certificates of deposit of HK\$17,064,000 (2012: HK\$17,054,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

Debt securities classified as held-to-maturity amounting to HK\$5,740,000 (2012: HK\$3,382,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of the People's Republic of China ("PRC").

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

The certificates of deposit classified as held-to-maturity securities held by the Group are mainly issued by banks from the PRC, Japan and Hong Kong. Of the above, held-to-maturity certificates of deposit amounting to HK\$2,313,005,000 (2012: HK\$1,731,693,000) and held-to-maturity debt securities amounting to HK\$806,273,000 (2012: HK\$900,850,000) held by the Group are with credit exposures to the PRC.

18. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as held-to-maturity and available-for-sale as at 30 June 2013 and 31 December 2012 that were transferred to an entity with terms to repurchase these debt securities at the agreed dates and prices. As the Group has not transferred the significant risks and rewards relating to these debt securities to the entity, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 23). The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities is transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the Group's condensed consolidated statement of financial position.

	30 June 2013		
	Available- for-sale debt securities <i>HK\$'000</i>	Held-to- maturity debt securities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Carrying amount of transferred assets	378,479	117,528	496,007
Carrying amount of associated liabilities (<i>Note 23</i>)	<u>329,313</u>	<u>108,036</u>	<u>437,349</u>

	31 December 2012		
	Available- for-sale debt securities <i>HK\$'000</i>	Held-to- maturity debt securities <i>HK\$'000</i>	Total <i>HK\$'000</i>
Carrying amount of transferred assets	393,490	117,621	511,111
Carrying amount of associated liabilities (<i>Note 23</i>)	<u>326,687</u>	<u>106,994</u>	<u>433,681</u>

19. ADVANCES AND OTHER ACCOUNTS

	30 June 2013	31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advances to customers		
Bills receivable	449,920	373,401
Trade bills	660,579	453,669
Other advances to customers	<u>41,514,016</u>	<u>38,365,119</u>
	42,624,515	39,192,189
Interest receivable	182,128	232,270
Impairment allowances		
- Individually assessed	(26,339)	(24,054)
- Collectively assessed	<u>(178,888)</u>	<u>(164,506)</u>
	42,601,416	39,235,899
Advances to banks and other financial institutions	<u>418,371</u>	<u>2,164,842</u>
	43,019,787	41,400,741
Other accounts	<u>645,231</u>	<u>708,477</u>
	<u><u>43,665,018</u></u>	<u><u>42,109,218</u></u>

Included in the “Other Accounts” of the Group is an amount of approximately HK\$246,957,000 (2012: HK\$246,484,000) placed as reserve funds with the financial institutions in the PRC by the Shantou Branch of the Bank. Such reserve funds include the mandatory reserve deposits and surplus reserve deposits placed with the People’s Bank of China, amounting to HK\$50,629,000 (2012: HK\$64,861,000) and HK\$26,613,000 (2012: HK\$13,699,000) respectively. The mandatory reserve deposits are not available for the Group’s daily operation. The balance of HK\$169,715,000 (2012: HK\$167,924,000) comprises fixed deposits placed with other financial institutions in the PRC in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the PRC.

The remaining balance of “Other Accounts” of the Group amounting to HK\$398,274,000 (2012: HK\$461,993,000) mainly comprised accounts receivable from customers in relation to securities dealing of HK\$230,854,000 (2012: HK\$200,377,000) and a variation margin of HK\$21,015,000 (2012: HK\$94,479,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements.

Details of the impaired loans are as follows:

	30 June 2013	31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross impaired loans	32,200	24,194
Less: Impairment allowances under individual assessment	<u>(26,339)</u>	<u>(24,054)</u>
Net impaired loans	<u>5,861</u>	<u>140</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.08%</u>	<u>0.06%</u>
Market value of collateral pledged	<u>64,524</u>	<u>76,635</u>

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

20. INVESTMENT PROPERTIES

	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	135,318	127,171
Net increase in fair value recognised in profit or loss	1,910	9,390
Disposals	(1,600)	(1,500)
Exchange difference	<u>534</u>	<u>257</u>
At 30 June/31 December	<u>136,162</u>	<u>135,318</u>

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

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

	Six months ended 30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net gains on disposal of investment properties	2,327	2,816
Net gains on fair value adjustments on investment properties	<u>1,910</u>	<u>3,830</u>
	<u>4,237</u>	<u>6,646</u>

Investment properties owned by the Group were revalued at 30 June 2013 by adopting the direct comparison approach and which reference to the recent transactions for similar premises by Vigers Appraisal & Consulting Limited, independent professional qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

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

The investment properties are rented out under operating leases.

21. PROPERTY AND EQUIPMENT

	Leasehold			
	land	Buildings	Equipment	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
COST				
At 1 January 2013	575,421	375,285	546,606	1,497,312
Additions	—	—	14,479	14,479
Disposals	—	—	(3,067)	(3,067)
Exchange adjustments	—	—	79	79
At 30 June 2013	<u>575,421</u>	<u>375,285</u>	<u>558,097</u>	<u>1,508,803</u>
ACCUMULATED DEPRECIATION				
At 1 January 2013	101,005	62,214	405,713	568,932
Depreciation	5,495	4,081	18,211	27,787
Eliminated on disposals	—	—	(1,890)	(1,890)
Exchange adjustments	—	—	35	35
At 30 June 2013	<u>106,500</u>	<u>66,295</u>	<u>422,069</u>	<u>594,864</u>
CARRYING AMOUNTS				
At 30 June 2013	<u><u>468,921</u></u>	<u><u>308,990</u></u>	<u><u>136,028</u></u>	<u><u>913,939</u></u>
COST				
At 1 January 2012	562,418	372,392	505,334	1,440,144
Additions	13,003	2,893	54,209	70,105
Disposals	—	—	(13,308)	(13,308)
Exchange adjustments	—	—	371	371
At 31 December 2012	<u>575,421</u>	<u>375,285</u>	<u>546,606</u>	<u>1,497,312</u>
ACCUMULATED DEPRECIATION				
At 1 January 2012	90,078	53,963	377,135	521,176
Depreciation	10,927	8,251	40,031	59,209
Eliminated on disposals	—	—	(11,441)	(11,441)
Exchange adjustments	—	—	(12)	(12)
At 31 December 2012	<u>101,005</u>	<u>62,214</u>	<u>405,713</u>	<u>568,932</u>
CARRYING AMOUNTS				
At 31 December 2012	<u><u>474,416</u></u>	<u><u>313,071</u></u>	<u><u>140,893</u></u>	<u><u>928,380</u></u>

22. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January and 30 June/31 December		
COST		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	<u>2,850</u>	<u>2,850</u>
Net book value at 1 January	2,423	2,483
Release of prepaid operating lease payments	(33)	(66)
Exchange adjustments	<u>27</u>	<u>6</u>
Net book value at 30 June/31 December	<u>2,417</u>	<u>2,423</u>
Analysed as:		
Current portion	33	66
Non-current portion	<u>2,384</u>	<u>2,357</u>
Total	<u>2,417</u>	<u>2,423</u>

23. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	30 June	31 December
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	329,313	326,687
Held-to-maturity	<u>108,036</u>	<u>106,994</u>
	<u>437,349</u>	<u>433,681</u>

As at 30 June 2013, debt securities which are classified as available-for-sale and held-to-maturity with carrying amounts of HK\$378,479,000 (2012: HK\$393,490,000) and HK\$117,528,000 (2012: HK\$117,621,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

24. DEPOSITS FROM CUSTOMERS

	30 June 2013	31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Demand deposits and current accounts	5,434,970	5,238,918
Savings deposits	20,703,476	21,557,659
Time, call and notice deposits	<u>42,617,469</u>	<u>40,712,171</u>
	<u>68,755,915</u>	<u>67,508,748</u>

25. CERTIFICATES OF DEPOSIT

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$177,511,000 as at 30 June 2013 (2012: HK\$667,636,000). Included in certificates of deposit are certificates of deposit of HK\$100,000,000 (2012: HK\$100,000,000) issued at the rate of three-month HIBOR plus 1% which will mature in August 2013 and certificates of deposit of HK\$77,511,000 (2012: HK\$567,636,000) issued at interest rate of 1% (2012: 1.0% to 2.9%) per annum which will mature in October 2013 (2012: January 2013 to October 2013). All certificates of deposit issued are not secured by any collateral.

26. LOAN CAPITAL

	30 June 2013	31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (<i>Notes (a) & (b)</i>)	<u>1,794,150</u>	<u>1,898,957</u>

Notes:

- (a) As at 30 June 2013 and 31 December 2012, this represents a subordinated note qualifying as tier 2 capital with face value of US\$225,000,000 issued on 5 November 2010. The note will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As the "Change in Status Notice" has not been served during the reporting period, the rate of interest on the note remains at 6% per annum.
- (b) The subordinated note issued is not secured by any collateral.

27. DEFERRED TAXATION

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

	30 June 2013	31 December 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax assets	1,475	1,502
Deferred tax liabilities	<u>(11,832)</u>	<u>(23,574)</u>
	<u>(10,357)</u>	<u>(22,072)</u>

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

	Accelerated tax depreciation	Collectively assessed impairment allowance	Investment properties	Revaluation of available- for-sale securities	Remeasurement of retirement benefits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2013	(11,387)	26,531	(2,909)	(32,613)	(1,694)	(22,072)
(Charge) credit to profit or loss for the period	(2,003)	1,912	(75)	—	—	(166)
Credit to other comprehensive income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,881</u>	<u>—</u>	<u>11,881</u>
At 30 June 2013	<u>(13,390)</u>	<u>28,443</u>	<u>(2,984)</u>	<u>(20,732)</u>	<u>(1,694)</u>	<u>(10,357)</u>
At 1 January 2012	(10,540)	27,869	(2,874)	(2,797)	(1,694)	9,964
Charge to profit or loss for the year	(847)	(1,338)	(35)	—	—	(2,220)
Charge to other comprehensive income for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(29,816)</u>	<u>—</u>	<u>(29,816)</u>
At 31 December 2012	<u>(11,387)</u>	<u>26,531</u>	<u>(2,909)</u>	<u>(32,613)</u>	<u>(1,694)</u>	<u>(22,072)</u>

28. MATURITY PROFILES

The maturity analysis of financial assets and liabilities shown on the condensed consolidated statement of financial position are presented based on maturity information provided to and reviewed by management, is shown below:

	Repayable within 1 month (except those Repayable on demand)	Repayable within 1 month but within 3 months	Repayable after 1 month but within 1 year	Repayable after 3 months but within 1 year	Repayable after 1 year but within 5 years	Repayable after 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30 June 2013 Assets								
Cash and short-term funds	3,651,708	8,109,998	19,418	179,073	—	—	—	11,960,197
Placements with banks and other financial institutions	—	—	5,389,761	3,033,872	—	—	—	8,423,633
Derivative financial instruments	—	123	43	623	16,798	90,082	—	107,669
Financial assets at fair value through profit or loss	—	—	—	91,149	—	—	201	91,350
Available-for-sale securities	—	—	—	—	3,248,164	1,086,394	232,646	4,567,204
Held-to-maturity securities	—	1,817,246	2,494,888	3,938,535	2,567,225	739,080	—	11,556,974
Advances to customers	2,096,968	2,810,336	4,417,429	7,587,291	12,175,512	13,448,710	88,269	42,624,515
Advances to banks and other financial institutions	—	—	418,371	—	—	—	—	418,371
Other financial assets	348,159	130,801	123,848	198,000	498	—	(179,174)	622,132
Total financial assets	6,096,835	12,868,504	12,863,758	15,028,543	18,008,197	15,364,266	141,942	80,372,045
Liabilities								
Deposits and balances of banks and other financial institutions	14,092	1,833,262	—	232,695	—	—	—	2,080,049
Financial assets sold under repurchase agreements	—	358,423	—	78,926	—	—	—	437,349
Deposits from customers	26,158,876	19,854,312	14,042,266	8,618,689	81,772	—	—	68,755,915
Certificates of deposit	—	—	100,000	77,511	—	—	—	177,511
Derivative financial instruments	—	22,705	88,369	27,818	46,610	8,943	—	194,445
Loan capital	—	—	—	—	—	1,794,150	—	1,794,150
Other financial liabilities	381,841	41,664	87,639	177,311	19,073	—	—	707,528
Total financial liabilities	26,554,809	22,110,366	14,318,274	9,212,950	147,455	1,803,093	—	74,146,947
Net position								
- Total financial assets and liabilities	(20,457,974)	(9,241,862)	(1,454,516)	5,815,593	17,860,742	13,561,173	141,942	6,225,098
Of which certificates of deposit included in:								
Held-to-maturity securities	—	1,739,681	2,156,110	2,969,491	—	—	—	6,865,282
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	—	—	—	91,149	—	—	—	91,149
Available-for-sale securities	—	—	—	—	3,248,164	1,086,394	—	4,334,558
Held-to-maturity securities	—	1,817,246	2,494,888	3,938,535	2,567,225	739,080	—	11,556,974
	—	1,817,246	2,494,888	4,029,684	5,815,389	1,825,474	—	15,982,681

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	Repayable within 1 month (except those Repayable on demand)	Repayable within 1 month but within 3 months	Repayable after 1 month but within 1 year	Repayable after 3 months but within 1 year	Repayable after 1 year but within 5 years	Repayable after 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2012								
Assets								
Cash and short-term funds	6,099,570	11,103,776	30,000	98,531	—	—	—	17,331,877
Placements with banks and other financial institutions	—	—	3,948,937	840,576	—	—	—	4,789,513
Derivative financial instruments	—	6,562	3,987	6,106	—	171,256	—	187,911
Financial assets at fair value through profit or loss	—	—	—	216,196	996,953	—	261	1,213,410
Available-for-sale securities	—	—	—	—	2,625,897	1,367,643	228,677	4,222,217
Held-to-maturity securities	—	1,225,799	2,576,757	2,538,779	2,519,363	739,322	—	9,600,020
Advances to customers	1,634,953	2,284,996	2,398,222	7,369,363	12,717,092	12,619,406	168,157	39,192,189
Advances to banks and other financial institutions	—	105,497	1,364,831	694,514	—	—	—	2,164,842
Other financial assets	327,140	128,130	193,336	181,311	94,216	—	(171,946)	752,187
Total financial assets	8,061,663	14,854,760	10,516,070	11,945,376	18,953,521	14,897,627	225,149	79,454,166
Liabilities								
Deposits and balances of banks and other financial institutions	35,287	803,806	659,900	344,484	—	—	—	1,843,477
Financial assets sold under repurchase agreements	—	354,801	—	78,880	—	—	—	433,681
Deposits from customers	26,837,602	19,872,678	13,961,059	6,748,437	88,972	—	—	67,508,748
Certificates of deposit	—	99,991	390,267	177,378	—	—	—	667,636
Derivative financial instruments	—	3,131	17,943	27,942	142,985	56,655	—	248,656
Loan capital	—	—	—	—	—	1,898,957	—	1,898,957
Other financial liabilities	401,465	59,876	102,005	161,879	15,004	—	—	740,229
Total financial liabilities	27,274,354	21,194,283	15,131,174	7,539,000	246,961	1,955,612	—	73,341,384
Net position								
- Total financial assets and liabilities	(19,212,691)	(6,339,523)	(4,615,104)	4,406,376	18,706,560	12,942,015	225,149	6,112,782
Of which certificates of deposit included in:								
Held-to-maturity securities	—	225,243	2,110,648	1,357,430	—	—	—	3,693,321
Of which debt securities included in:								
Financial assets at fair value through profit or loss								
- Designated at fair value	—	—	—	216,196	996,953	—	—	1,213,149
Available-for-sale securities	—	—	—	—	2,625,897	1,367,643	—	3,993,540
Held-to-maturity securities	—	1,225,799	2,576,757	2,538,779	2,519,363	739,322	—	9,600,020
	—	1,225,799	2,576,757	2,754,975	6,142,213	2,106,965	—	14,806,709

29. RELATED PARTY TRANSACTIONS

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

	Interest, commission and rental income Six months ended 30 June		Interest and rental expenses Six months ended 30 June	
	2013 HK \$'000	2012 HK\$'000	2013 HK \$'000	2012 HK\$'000
Ultimate holding company/immediate holding company/fellow subsidiaries	<u>3,764</u>	<u>3,318</u>	<u>5,172</u>	<u>10,481</u>
Associates	<u>14,339</u>	<u>9,316</u>	<u>1,391</u>	<u>1,414</u>
Key management personnel (<i>Note</i>)	<u>2,704</u>	<u>2,733</u>	<u>5,202</u>	<u>5,385</u>

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

	Loan to related parties		Deposit from related parties	
	30 June 2013 HK\$'000	31 December 2012 HK\$'000	30 June 2013 HK\$'000	31 December 2012 HK\$'000
Ultimate holding company/immediate holding company/fellow subsidiaries	<u>32,752</u>	<u>34,592</u>	<u>236,786</u>	<u>159,663</u>
Associates	<u>14,337</u>	<u>14,337</u>	<u>153,153</u>	<u>97,147</u>
Key management personnel (<i>Note</i>)	<u>487,178</u>	<u>417,568</u>	<u>675,340</u>	<u>653,558</u>

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

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

Compensation of key management personnel

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

	Six months ended 30 June	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	33,717	30,044
Post employment benefits	<u>2,532</u>	<u>2,308</u>
	<u>36,249</u>	<u>32,352</u>

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

30. COMPARATIVE AMOUNTS

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

III. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE CHB GROUP

The following is the full text of the audited consolidated financial statements of the CHB Group for the year ended 31 December 2012 (the "**Financial Statements**") as extracted from the annual report of CHB for the year ended 31 December 2012. Capitalised terms used in the Financial Statements have the meanings ascribed to them in the Financial Statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2012

	<i>Notes</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Interest income		1,563,820	1,369,989
Interest expense		<u>(726,912)</u>	<u>(554,668)</u>
Net interest income	8	836,908	815,321
Fee and commission income		253,949	276,257
Fee and commission expenses		<u>(64,584)</u>	<u>(58,534)</u>
Net fee and commission income	9	189,365	217,723
Net gains (losses) on financial instruments at fair value through profit or loss	10	57,473	(102,418)
Net gains (losses) on fair value hedge	10	1,200	(20,679)
Other operating income	11	237,835	404,855
Operating expenses	12	<u>(788,591)</u>	<u>(773,555)</u>
		534,190	541,247
Reversal of impairment allowances on loans and advances	21	65,228	107,188
Net losses on disposal of property and equipment		(1,861)	(4,128)
Net gains on disposal of available-for-sale securities		594	697
Net gains on disposal of and fair value adjustments on investment properties	24	12,206	9,065
Impairment loss on available-for-sale securities		—	(4,473)
Share of profits of associates		<u>36,028</u>	<u>18,056</u>
Profit before taxation		646,385	667,652
Taxation	14	<u>(103,045)</u>	<u>(106,936)</u>
Profit for the year - attributable to owners of the Bank		<u>543,340</u>	<u>560,716</u>
Earnings per share - basic	16	<u>HK\$1.25</u>	<u>HK\$1.29</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Profit for the year	<u>543,340</u>	<u>560,716</u>
Other comprehensive income		
Exchange differences arising on translation	4,588	6,547
Surplus on remeasurement of retirement benefits	—	10,268
Income tax effect relating to retirement benefits	—	(1,694)
Fair value gains (losses) of available-for-sale securities arising during the year	183,500	(89,234)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(594)	(697)
Amount reclassified to the profit or loss upon impairment of available-for-sale securities	—	4,473
Income tax effect relating to disposal of available-for-sale securities	98	12
Income tax effect relating to fair value change of available-for-sale securities	(29,914)	13,086
Share of other comprehensive income (expense) of associates	<u>430</u>	<u>(53)</u>
Other comprehensive income (expense) for the year (net of tax)	<u>158,108</u>	<u>(57,292)</u>
Total comprehensive income for the year	<u><u>701,448</u></u>	<u><u>503,424</u></u>
Total comprehensive income attributable to:		
Owners of the Bank	<u><u>701,448</u></u>	<u><u>503,424</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2012

	Notes	31 December 2012 HK\$'000	31 December 2011 HK\$'000 (Restated)	1 January 2011 HK\$'000 (Restated)
Assets				
Cash and short-term funds	17	17,331,877	18,659,276	18,249,365
Placements with banks and other financial institutions maturing between one to twelve months		4,789,513	2,169,007	2,282,122
Derivative financial instruments	18	187,911	129,556	20,542
Financial assets at fair value through profit or loss	19	1,213,410	1,845,589	1,774,453
Available-for-sale securities	19	4,222,217	1,846,485	1,212,428
Held-to-maturity securities	19	9,600,020	8,288,082	10,878,046
Advances and other accounts	21	42,109,218	43,247,956	38,835,820
Tax recoverable		—	—	6
Interests in associates	23	182,970	153,872	136,919
Investment properties	24	135,318	127,171	116,400
Property and equipment	25	928,380	918,968	729,771
Prepaid lease payments for land	26	2,423	2,483	2,535
Deferred tax assets	33	1,502	16,861	—
Goodwill	36	50,606	50,606	50,606
Total assets		<u>80,755,365</u>	<u>77,455,912</u>	<u>74,289,013</u>
Liabilities				
Deposits and balances of banks and other financial institutions		1,843,477	1,086,836	1,039,991
Financial assets sold under repurchase agreements	27	433,681	420,652	—
Deposits from customers	28	67,508,748	64,815,713	63,500,219
Certificates of deposit	29	667,636	1,545,562	—
Derivative financial instruments	18	248,656	265,696	256,426
Other accounts and accruals		740,229	558,495	442,834
Current tax liabilities		16,327	31,176	50,106
Loan capital	30	1,898,957	1,852,153	2,401,151
Deferred tax liabilities	33	23,574	6,897	11,478
Total liabilities		<u>73,381,285</u>	<u>70,583,180</u>	<u>67,702,205</u>
Equity attributable to owners of the Bank				
Share capital	31	217,500	217,500	217,500
Reserves		7,156,580	6,655,232	6,369,308
Total equity		<u>7,374,080</u>	<u>6,872,732</u>	<u>6,586,808</u>
Total liabilities and equity		<u>80,755,365</u>	<u>77,455,912</u>	<u>74,289,013</u>

Approved and authorised for issue by the Board of Directors on 7 March 2013 and signed on its behalf by:

Liu Lit Mo, *Chairman*

Liu Lit Chi, *Deputy Chairman and Managing Director*

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

Michael K W Yeung, *Company Secretary*

STATEMENT OF FINANCIAL POSITION OF THE BANK

as at 31 December 2012

	Notes	31 December 2012 HK\$'000	31 December 2011 HK\$'000 (Restated)	1 January 2011 HK\$'000 (Restated)
Assets				
Cash and short-term funds	17	17,321,474	18,648,729	18,204,225
Placements with banks and other financial institutions maturing between one to twelve months		4,775,716	2,134,819	2,282,122
Derivative financial instruments	18	187,911	129,556	20,542
Financial assets at fair value through profit or loss	19	1,213,149	1,845,282	1,773,880
Available-for-sale securities	19	4,130,090	1,765,800	1,126,117
Held-to-maturity securities	19	9,600,020	8,288,082	10,878,046
Advances and other accounts	21	41,885,579	43,130,035	38,627,701
Investments in subsidiaries	22(i)	261,984	261,884	261,784
Amounts due from subsidiaries	22(ii) & 39	248,376	230,891	1,241
Interests in associates	23	21,500	21,500	21,500
Investment properties	24	101,990	94,100	86,450
Property and equipment	25	1,198,783	1,195,573	1,222,974
Prepaid lease payments for land	26	2,423	2,483	2,535
Deferred tax assets	33	1,502	16,861	—
Total assets		<u>80,950,497</u>	<u>77,765,595</u>	<u>74,509,117</u>
Liabilities				
Deposits and balances of banks and other financial institutions		1,843,477	1,086,836	1,039,991
Financial assets sold under repurchase agreements	27	433,681	420,652	—
Deposits from customers	28	67,508,748	64,815,582	63,499,301
Amounts due to subsidiaries	39	846,080	793,690	700,918
Certificates of deposit	29	667,636	1,545,562	—
Derivative financial instruments	18	248,656	265,696	256,426
Other accounts and accruals		502,201	427,644	265,625
Current tax liabilities		15,598	32,854	46,674
Loan capital	30	1,898,957	1,852,153	2,401,151
Deferred tax liabilities	33	15,129	—	3,318
Total liabilities		<u>73,980,163</u>	<u>71,240,669</u>	<u>68,213,404</u>
Equity attributable to owners of the Bank				
Share capital	31	217,500	217,500	217,500
Reserves	32	6,752,834	6,307,426	6,078,213
Total equity		<u>6,970,334</u>	<u>6,524,926</u>	<u>6,295,713</u>
Total liabilities and equity		<u>80,950,497</u>	<u>77,765,595</u>	<u>74,509,117</u>

Approved and authorised for issue by the Board of Directors on 7 March 2013 and signed on its behalf by:

Liu Lit Mo, *Chairman*

Liu Lit Chi, *Deputy Chairman and Managing Director*

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

Michael K W Yeung, *Company Secretary*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Share capital	Share premium	Goodwill	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP									
At 1 January 2012 (as restated)	217,500	1,542,817	(182)	33,807	1,388,500	21,648	408,000	3,260,642	6,872,732
Profit for the year	—	—	—	—	—	—	—	543,340	543,340
Exchange differences arising on translation	—	—	—	—	—	4,588	—	—	4,588
Fair value gains of available-for-sale securities arising during the year	—	—	—	183,500	—	—	—	—	183,500
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	—	—	—	(594)	—	—	—	—	(594)
Income tax effect relating to disposal of available-for-sale securities	—	—	—	98	—	—	—	—	98
Income tax effect relating to fair value change of available-for-sale securities	—	—	—	(29,914)	—	—	—	—	(29,914)
Share of reserves of associates	—	—	—	430	—	—	—	—	430
Other comprehensive income	—	—	—	153,520	—	4,588	—	—	158,108
Total comprehensive income for the year	—	—	—	153,520	—	4,588	—	543,340	701,448
Interim dividend paid for financial year 2012	15	—	—	—	—	—	—	(47,850)	(47,850)
Final dividend paid for financial year 2011	15	—	—	—	—	—	—	(152,250)	(152,250)
Release of regulatory reserve to retained profits	—	—	—	—	—	—	(21,000)	21,000	—
At 31 December 2012	217,500	1,542,817	(182)	187,327	1,388,500	26,236	387,000	3,624,882	7,374,080

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

		Share capital	Share premium	Goodwill	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011 (as originally stated)		217,500	1,542,817	(182)	106,220	1,388,500	15,101	331,000	2,976,973	6,577,929
Effect of change in accounting policy	2	—	—	—	—	—	—	—	8,879	8,879
At 1 January 2011 (as restated)		217,500	1,542,817	(182)	106,220	1,388,500	15,101	331,000	2,985,852	6,586,808
Profit for the year		—	—	—	—	—	—	—	560,716	560,716
Exchange differences arising on translation		—	—	—	—	—	6,547	—	—	6,547
Surplus on remeasurement of retirement benefits		—	—	—	—	—	—	—	10,268	10,268
Income tax effect relating to retirement benefits		—	—	—	—	—	—	—	(1,694)	(1,694)
Fair value losses of available-for-sale securities arising during the year		—	—	—	(89,234)	—	—	—	—	(89,234)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		—	—	—	(697)	—	—	—	—	(697)
Amount reclassified to the profit or loss upon impairment of available-for-sale securities		—	—	—	4,473	—	—	—	—	4,473
Share of reserves of associates		—	—	—	(53)	—	—	—	—	(53)
Income tax effect relating to disposal of available-for-sale securities		—	—	—	12	—	—	—	—	12
Income tax effect relating to fair value change of available-for-sale securities		—	—	—	13,086	—	—	—	—	13,086
Other comprehensive (expense) income		—	—	—	(72,413)	—	6,547	—	8,574	(57,292)
Total comprehensive (expense) income for the year		—	—	—	(72,413)	—	6,547	—	569,290	503,424
Interim dividend paid for financial year 2011	15	—	—	—	—	—	—	—	(65,250)	(65,250)
Final dividend paid for financial year 2010	15	—	—	—	—	—	—	—	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve		—	—	—	—	—	—	77,000	(77,000)	—
At 31 December 2011 (as restated)		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>33,807</u>	<u>1,388,500</u>	<u>21,648</u>	<u>408,000</u>	<u>3,260,642</u>	<u>6,872,732</u>

The retained profits of the Group included retained profits of HK\$66,564,000 (2011: retained profits of HK\$37,896,000) retained by the associates of the Group.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	646,385	667,652
Adjustments for:		
Net interest income	(836,908)	(815,321)
Reversal of impairment allowances on loans and advances	(65,228)	(107,188)
Net losses on disposal of property and equipment	1,861	4,128
Net gains on disposal of available-for-sale securities	(594)	(697)
Net gains on disposal of and fair value adjustments on investment properties	(12,206)	(9,065)
Impairment loss on available-for-sale securities	—	4,473
Share of profits of associates	(36,028)	(18,056)
Net (gains) losses on fair value hedge	(1,200)	20,679
Dividend income from investments	(10,799)	(9,820)
Depreciation	59,209	54,742
Release of prepaid lease payments for land	66	66
Exchange adjustments	818	2,204
Operating cash flows before movements in operating assets and liabilities	(254,624)	(206,203)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	(1,738,466)	(987,888)
Exchange fund bills with original maturity over three months	(50,061)	299,500
Placements with banks and other financial institutions with original maturity over three months	(1,975,578)	506,294
Financial assets at fair value through profit or loss	632,179	(71,136)
Advances to customers	2,187,309	(3,237,766)
Advances to banks and other financial institutions	(659,433)	(980,509)
Other accounts	(254,426)	(41,491)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	1,003,864	(581)
Financial assets sold under repurchase agreements	13,029	420,652
Deposits from customers	2,693,035	1,315,494
Certificates of deposit	(877,926)	1,545,562
Derivative financial instruments	(51,127)	54,607
Other accounts and accruals	127,317	64,126
Cash generated from (used in) operations	795,092	(1,319,339)
Hong Kong Profits Tax paid	(99,265)	(118,437)
Overseas tax paid	(16,409)	(17,461)
Interest received	1,219,979	1,112,206
Interest paid	(605,553)	(436,416)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	1,293,844	(779,447)

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
INVESTING ACTIVITIES		
Interest received from available-for-sale securities and held-to-maturity securities	274,151	222,805
Dividends received on investments	10,799	9,820
Dividends received from associates	7,360	1,050
Purchase of held-to-maturity securities	(20,184,070)	(6,786,192)
Purchase of available-for-sale securities	(2,168,631)	(703,916)
Purchase of property and equipment	(70,105)	(247,951)
Proceeds from redemption of held-to-maturity securities	18,872,132	9,376,156
Proceeds from sale and redemption of available-for-sale securities	1,748	39,972
Proceeds from disposal of property and equipment	6	—
Proceeds from disposal of investment properties	4,316	—
NET CASH (USED IN) FROM INVESTING ACTIVITIES	<u>(3,252,294)</u>	<u>1,911,744</u>
FINANCING ACTIVITIES		
Interest paid on loan capital	(65,225)	(64,325)
Repurchase of loan capital	—	(783,196)
Dividends paid	(200,100)	(217,500)
NET CASH USED IN FINANCING ACTIVITIES	<u>(265,325)</u>	<u>(1,065,021)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(2,223,775)</u>	<u>67,276</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>17,092,730</u>	<u>17,025,454</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>14,868,955</u>	<u>17,092,730</u>
Represented by:		
Cash and balances with banks and other financial institutions	6,060,810	6,393,092
Money at call and short notice with original maturity of less than three months	7,565,351	7,549,078
Exchange fund bills with original maturity of less than three months	499,995	3,299,912
Placements with banks and other financial institutions with original maturity of less than three months	1,309,116	664,188
Deposits and balances of banks and other financial institutions with original maturity of less than three months	(566,317)	(813,540)
	<u>14,868,955</u>	<u>17,092,730</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2012

1. GENERAL

Chong Hing Bank Limited (the “Bank”) is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited. Its immediate holding company is Liu Chong Hing Estate Company, Limited and ultimate holding company is Liu Chong Hing Investment Limited, both of which are incorporated in Hong Kong. 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 the same as 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 (i) the new and revised HKFRSs that have become effective and (ii) certain new and revised HKFRSs in advance of their effective date issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), as follows:

HKFRSs that have become effective for the year

Amendments to HKAS 12	Deferred tax - Recovery of underlying assets
Amendments to HKFRS 7	Disclosures - Transfers of financial assets

HKFRSs that have been early applied for the year

HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures

Except as described below, the application of the above new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and the Group’s and the Bank’s financial positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

Amendments to HKAS 12 Deferred tax: Recovery of underlying assets

The Group and the Bank have applied for the first time the amendments to HKAS 12 “Deferred tax: Recovery of underlying assets” in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment property” are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group and the Bank measure their investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group’s and the Bank’s investment property portfolios in Hong Kong and the People’s Republic of China (the “PRC”) and concluded that all of the Group’s and the Bank’s investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, the directors have determined that the ‘sale’ presumption set out in the amendments to HKAS 12 is not rebutted.

The application of the amendments to HKAS 12 has resulted in the Group and the Bank not recognising any deferred taxes on changes in fair value of the investment properties located in Hong Kong as the Group and the Bank are not subject to any income taxes on disposal of these investment properties. Previously, the Group and the Bank recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

Upon the application of the amendments to HKAS 12, the Group recognises deferred tax on changes in fair value of its investment property in the PRC on the basis that the Group is subject to income taxes and land appreciation tax on disposal of this investment property.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group’s deferred tax liabilities being decreased by HK\$8,879,000 as at 1 January 2011, with the corresponding credit being recognised in retained profits. Similarly, the deferred tax liabilities have been decreased by HK\$10,140,000 as at 31 December 2011.

In the current year, no deferred taxes have been provided for changes in fair value of the Group’s investment properties located in Hong Kong. The change in accounting policy has resulted in the Group’s income tax expense for the years ended 31 December 2012 and 31 December 2011 being reduced by HK\$1,340,000 and HK\$1,261,000 respectively and hence resulted in profit for the years ended 31 December 2012 and 31 December 2011 being increased by HK\$1,340,000 and HK\$1,261,000 respectively.

Summary of the effects of the above change in accounting policy

The effects of change in accounting policy described above on the results for the current and prior years by line items are as follows:

	2012 HK\$'000	2011 HK\$'000
Decrease in taxation	1,340	1,261
Increase in profit for the year	<u>1,340</u>	<u>1,261</u>

The effects of the above change in accounting policy on the financial positions of the Group and the Bank as at 1 January 2011 and 31 December 2011 is as follows:

THE GROUP

	As at 1 January 2011 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 1 January 2011 HK\$'000 (restated)	As at 31 December 2011 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 31 December 2011 HK\$'000 (restated)
Deferred tax (liabilities) assets	<u>(20,357)</u>	<u>8,879</u>	<u>(11,478)</u>	<u>6,721</u>	<u>10,140</u>	<u>16,861</u>
Total effects on net assets	<u>6,577,929</u>	<u>8,879</u>	<u>6,586,808</u>	<u>6,862,592</u>	<u>10,140</u>	<u>6,872,732</u>
Retained earnings	<u>2,976,973</u>	<u>8,879</u>	<u>2,985,852</u>	<u>3,250,502</u>	<u>10,140</u>	<u>3,260,642</u>
Total effects on equity	<u>6,577,929</u>	<u>8,879</u>	<u>6,586,808</u>	<u>6,862,592</u>	<u>10,140</u>	<u>6,872,732</u>

THE BANK

	As at 1 January 2011 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 1 January 2011 HK\$'000 (restated)	As at 31 December 2011 HK\$'000 (originally stated)	Adjustments HK\$'000	As at 31 December 2011 HK\$'000 (restated)
Deferred tax (liabilities) assets	<u>(12,197)</u>	<u>8,879</u>	<u>(3,318)</u>	<u>6,721</u>	<u>10,140</u>	<u>16,861</u>
Total effects on net assets	<u>6,286,834</u>	<u>8,879</u>	<u>6,295,713</u>	<u>6,514,786</u>	<u>10,140</u>	<u>6,524,926</u>
Retained earnings	<u>2,738,447</u>	<u>8,879</u>	<u>2,747,326</u>	<u>2,949,521</u>	<u>10,140</u>	<u>2,959,661</u>
Total effects on equity	<u>6,286,834</u>	<u>8,879</u>	<u>6,295,713</u>	<u>6,514,786</u>	<u>10,140</u>	<u>6,524,926</u>

The effects of the above change in accounting policy on the financial positions of the Group and the Bank as at 31 December 2012 is as follows:

THE GROUP AND THE BANK	
As at 31 December 2012	
<i>HK\$'000</i>	
<i>(restated)</i>	
Decrease in deferred tax liabilities	<u>1,340</u>
Total effects on net assets	<u>1,340</u>
Increase in retained earnings	<u>1,340</u>
Total effects on equity	<u>1,340</u>

The effects of the above change in accounting policy on the Group's basic earnings per share for the current and prior years are insignificant.

Amendments to HKFRS 7 Disclosures - Transfers of financial assets

The Group has applied for the first time the amendments to HKFRS 7 Disclosures - Transfers of financial assets in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group entered into repurchase agreements with an entity to sell held-to-maturity securities and available-for-sale securities subject to a master agreement to repurchase these securities at the agreed dates and prices. As the Group has not transferred the significant risks and rewards relating to these held-to-maturity securities and available-for-sale securities, it continues to recognise the full carrying amounts of the held-to-maturity securities and available-for-sale securities, and has recognised the cash received on the transfer as financial assets sold under repurchase agreements (see note 27). The relevant disclosures have been made regarding the transfer of these held-to-maturity securities and available-for-sale securities, on application of the amendments to HKFRS 7 (see note 20). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011). To follow the accounting policies of the ultimate holding company, the Group has early adopted these new and revised standards in advance of its effective date of 1 January 2013.

Key requirements of these five standards are described below:

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. HK(SIC) - INT 12 Consolidation - Special purpose entities will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 Interests in joint ventures. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) - INT 13 Jointly controlled entities - Non-monetary contributions by venturers will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas joint ventures under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards. As at 31 December 2012, the Group and the Bank did not have interests in any unconsolidated structured entities.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The above new and revised standards require retrospective application with certain exceptions. The directors have performed analysis of the impact of the application of the amendments and determined that the interests in jointly controlled entities previously recorded in the financial statements should be classified as interests in associates when all facts and circumstances are considered upon the early adoption of these new and revised standards. The prior year's classification has been amended. It had no material impact on the consolidated financial statements for the current and prior years.

Comparative amounts

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

3. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures - Offsetting financial assets and financial liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures ³
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities ²
Amendments to HKAS 1 HKFRS 9	Annual improvements to HKFRSs 2009-2011 cycle ¹
HKFRS 13	Financial instruments ³
Amendments to HKAS 1	Fair value measurement ¹
Amendments to HKAS 32	Presentation of items of other comprehensive income ⁴
HK(IFRIC) - INT 20	Offsetting financial assets and financial liabilities ²
	Stripping costs in the production phase of a surface mine ¹

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

² Effective for annual periods beginning on or after 1 January 2014.

³ Effective for annual periods beginning on or after 1 January 2015.

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

Amendments to HKAS 32 Offsetting financial assets and financial liabilities and amendments to HKFRS 7 Disclosures - Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made in the future.

HKFRS 9 Financial instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

HKFRS 13 Fair value measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 “Financial instruments: Disclosures” will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 “Presentation of items of other comprehensive income” introduce new terminology for the “statement of comprehensive income” and “income statement”. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income” and an “income statement” is renamed as a “statement of profit or loss”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors anticipate that the application of the other new and revised standards, amendments or interpretation will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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.

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. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities (including structured entities, if any) controlled by the Bank (its subsidiaries).

Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if and only if the Bank has all the following:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is

lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as gains or losses in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gains or losses have been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained profits as specified by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 “Financial instruments: Recognition and measurement” or, when applicable, the cost on initial recognition of an investment in an associate.

Investments in subsidiaries

Investments in subsidiaries are stated in the Bank’s statement of financial position at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Bank on the basis of dividends received or receivable.

Goodwill

Goodwill arising on acquisitions on or after 1 January 2005 but before 1 January 2010

Goodwill arising on an acquisition of a business on or after 1 January 2005 but before 1 January 2010 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 statement of financial position.

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 combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment losses are allocated first to reduce the carrying amount of any goodwill allocated

to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment losses for goodwill is recognised directly in the consolidated income statement. An impairment losses recognised for goodwill is not reversed in subsequent periods.

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

Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment losses with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment losses recognised forms part of the carrying amount of the investment. Any reversal of that impairment losses are recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or losses on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if gains or losses

previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gains or losses from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Investments in associates are stated in the Bank's statement of financial position at cost less provision for impairment losses. The results of associates are accounted for by the Bank on the basis of dividends received or receivable.

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 on initial recognition. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

Once an impairment loss of a financial asset has been recognised, subsequent interest income is recognised using the rate of interest used to discount the future cash flows measuring the impairment losses.

Non-interest income revenue recognition

Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset 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.

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 (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Service income

Service income (including safe deposit box rentals and other banking services income) is recognised when services are provided.

Property and equipment

Property and equipment including land and buildings, which mainly comprise branches and offices are stated in the statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property and equipment over their estimated useful lives after taking into account their estimated residual value, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 gains or losses arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment property 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 and no future economic benefits are expected from the disposals. Any gains or losses 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 profit or loss in the period 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

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the lease.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments for land” in the statements of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property and equipment.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise. 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 other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 end of the reporting period, 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 in other comprehensive income and accumulated in equity under the heading of the translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Bank are reclassified to profit or loss.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are recognised 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 periodically, but at least triennially. All actuarial gains and losses of defined benefit plans are recognised immediately in other comprehensive income in the period in which they occur. Past service cost, including the unvested benefits, is recognised immediately in profit or loss.

The retirement benefit obligation recognised in the statements of financial position represents the present value of the defined benefit obligation as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interest in associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Financial instruments

Financial assets and financial liabilities are recognised in the statements of financial position 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 issue of financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group'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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

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 and 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 to the net carrying amount on initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have 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 incurred principally for the purpose of selling in the near future; or
- it is a part of a portfolio of identified 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.

Financial assets at fair value through profit or loss are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest earned on the financial assets and is included in interest income in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 other advances to customers, and amounts due from subsidiaries are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group's management has the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Equity and debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment of financial assets below).

Dividends on equity instruments classified as available-for-sale are recognised in profit or loss when the Group's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be 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 affected.

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
- breach of contract, default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as advances to customers, assets that are assessed not to be impaired individually are, in addition, 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.

Individually insignificant advances or advances where no impairment has been identified individually are assessed for collective impairment by considering the historical loss experience of advances with similar credit risk characteristics adjusted for current conditions.

For financial assets carried at amortised cost, the amount of the impairment losses recognised is the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment losses is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced through the use of an allowance account. 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 profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment losses are reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset carried at fair value is considered to be impaired, cumulative losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Impairment losses on available-for-sale equity investments carried at fair value will not be reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment losses are recognised directly in other comprehensive income and accumulated in investment valuation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment losses.

Financial liabilities and equity instruments*Financial liabilities*

Financial liabilities and equity instruments issued by the Group entity are classified as either financial liabilities or equity instruments in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

Equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

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 (including all fees and 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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- on initial recognition, it is a part of a portfolio of identified 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.

Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gains or losses recognised in profit or loss 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, financial assets sold under repurchase agreements, deposits from customers, other accounts payables, amounts due to subsidiaries, certificates of deposit and loan capital are subsequently measured at amortised cost, using the effective interest method.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statements of financial position 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 financial asset and settle the financial liability simultaneously.

Derivative financial instruments and hedging

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 the end of each reporting period. The resulting gains or losses are recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, 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.

Hedge accounting

The Group designates certain derivatives as hedges of the fair value of available-for-sale securities and fixed-rate subordinated notes (fair value hedges).

At the inception of the hedging relationship, the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values of the hedged item.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedge item attributable to the hedge risk are recognised in profit or loss in the line item relating to hedge item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for losses 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 designated 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 of obligation under the contract, as 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 the revenue recognition policy.

Derecognition

The Group derecognises financial assets only when the contractual rights to the cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the financial asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred financial asset, the Group continues to recognise the financial asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the financial asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gains or losses that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when the Group's obligations specified in the relevant contract are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Repurchase agreements

Financial assets sold subject to repurchase agreements continue to be recognised and recorded as available-for-sale securities and held-to-maturity securities as appropriate. The corresponding liability is included in financial assets sold under repurchase agreements.

The difference between purchase and sale price is recognised as interest expense in profit or loss over the life of the agreements using the effective interest method.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Impairment of non-financial assets (other than goodwill)

At the end of the reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised immediately in profit or loss.

Where impairment losses subsequently reverse, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment losses been recognised for the asset in prior years. A reversal of impairment losses is recognised as income immediately.

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, money at call and short notice, placements with and deposits of banks and other financial institutions as well as exchange fund bills.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES 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 underlying 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.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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 losses 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 statements of financial position 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 on a collective basis for loans and advances with similar credit risk characteristics to assess the impairment loss. More details are set out in Note 7.

Details of the impairment allowances movements are disclosed in Note 21.

(b) *Fair value of derivatives and other financial instruments*

The management of the Group uses its 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, convertible bonds and structured products with embedded derivatives, assumptions are made based on quoted market rates adjusted for specific features of the instruments.

Details of the assumptions used are disclosed in Note 7.

(c) *Estimated impairment of goodwill*

According to HKAS 36 "Impairment of Assets", impairment losses are 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 three year financial budgets approved by management of the subsidiary and estimated terminal value at the end of the three-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and selection of discount rates.

Details of the recoverable amount calculation are disclosed in Note 36.

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 Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios in Hong Kong and the PRC and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of these investment properties.

Deferred taxation in respect of temporary differences attributed to the accumulated profits of the PRC branch

The directors have determined that the Bank is able to control the timing of the reversal of the temporary differences attributable to accumulated profits of the PRC branch amounting to HK\$209,801,000 (2011: HK\$159,590,000) and that it is probable that the temporary differences will not reverse in the foreseeable future. Accordingly, deferred taxation relating to such temporary differences is not provided.

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 instead of amortised cost.

Details of these assets are set out in Note 19.

6. SEGMENT INFORMATION

(a) Operating segments

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

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, auto financing, 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 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, and from the Bank's cash management activities through foreign currency funding swaps.

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

Others comprise investment holding, insurance, other investment advisory services and property investments.

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

(i) Operating segment information for the year ended 31 December 2012 is presented below:

Operating segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,012,559	548,938	2,323	—	—	1,563,820
Interest expense to external customers	(567,076)	(159,836)	—	—	—	(726,912)
Inter-segment interest income (Note 1)	255,975	—	—	—	(255,975)	—
Inter-segment interest expense (Note 1)	—	(255,975)	—	—	255,975	—
Net interest income	701,458	133,127	2,323	—	—	836,908
Fee and commission income	137,194	—	116,755	—	—	253,949
Fee and commission expenses	(64,006)	—	(578)	—	—	(64,584)
Net gains on financial instruments at fair value through profit or loss	677	56,796	—	—	—	57,473
Net gains on fair value hedge	—	1,200	—	—	—	1,200
Other operating income (Note 2)	84,632	108,228	—	44,140	—	237,000
Segment revenue						
Total operating income	859,955	299,351	118,500	44,140	—	1,321,946
Comprising:						
- segment revenue from customers	603,980	555,326	118,500	44,140		
- inter-segment transactions	255,975	(255,975)	—			
Operating expenses (Note 3)	(470,941)	(30,213)	(69,493)	(10,769)	—	(581,416)
Reversal of impairment allowances on loans and advances	65,228	—	—	—	—	65,228
Net losses on disposal of property and equipment	(1,852)	—	—	(9)	—	(1,861)
Net gains on disposal of available-for-sale securities	—	—	—	594	—	594
Net gains on disposal of and fair value adjustments on investment properties	—	—	—	12,206	—	12,206
Segment profit	452,390	269,138	49,007	46,162	—	816,697
Unallocated corporate expenses						(207,175)
Unallocated corporate income						835
Share of profits of associates						610,357
Profit before taxation						36,028
						646,385

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

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

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

Operating segment assets and liabilities as at 31 December 2012

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	48,290,655	31,156,460	232,982	437,396	80,117,493
Interests in associates					182,970
Unallocated corporate assets					454,902
Consolidated total assets					<u>80,755,365</u>
Liabilities					
Segment liabilities	67,818,689	5,172,703	174,138	65,204	73,230,734
Unallocated corporate liabilities					150,551
Consolidated total liabilities					<u>73,381,285</u>

Other information - amounts included in the measure of segment results and segment assets

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure						
during the year	35,531	1,178	243	508	32,645	70,105
Depreciation	36,227	1,475	5,295	179	16,033	59,209
Release of prepaid lease payments for land	<u>66</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>66</u>

The accounting policies of the operating segments are the same as the Group's accounting policies in Note 4.

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

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

(ii) Operating segment information for the year ended 31 December 2011 is presented below:

Operating segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	827,367	540,008	2,614	—	—	1,369,989
Interest expense to external customers	(442,555)	(112,113)	—	—	—	(554,668)
Inter-segment interest income (Note 1)	179,437	—	—	—	(179,437)	—
Inter-segment interest expense (Note 1)	—	(179,437)	—	—	179,437	—
Net interest income	564,249	248,458	2,614	—	—	815,321
Fee and commission income	124,152	—	152,105	—	—	276,257
Fee and commission expenses	(58,219)	—	(315)	—	—	(58,534)
Net gains (losses) on financial instruments at fair value through profit or loss	183	(100,692)	—	(1,909)	—	(102,418)
Net losses on fair value hedge	—	(20,679)	—	—	—	(20,679)
Other operating income (expenses)	316,206	54,168	(2)	34,483	—	404,855
Segment revenue						
Total operating income	946,571	181,255	154,402	32,574	—	1,314,802
Comprising:						
- segment revenue from customers	767,134	360,692	154,402	32,574		
- inter-segment transactions	179,437	(179,437)	—	—		
Operating expenses (Note 2)	(467,071)	(30,618)	(71,234)	(8,706)	—	(577,629)
Reversal of impairment allowances on loans and advances	107,188	—	—	—	—	107,188
Net losses on disposal of property and equipment	(4,127)	—	—	(1)	—	(4,128)
Net gains on disposal of available-for-sale securities	—	—	—	697	—	697
Net gains on disposal of and fair value adjustments on investment properties	—	—	—	9,065	—	9,065
Impairment loss on available-for-sale securities	—	—	—	(4,473)	—	(4,473)
Segment profit	582,561	150,637	83,168	29,156	—	845,522
Unallocated corporate expenses						(195,926)
Share of profits of associates						649,596
Profit before taxation						18,056
						667,652

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

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

Operating segment assets and liabilities as at 31 December 2011

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	50,025,308	26,405,590	130,014	408,662	76,969,574
Interests in associates					153,872
Unallocated corporate assets					322,326
Consolidated total assets					<u>77,445,772</u>
Liabilities					
Segment liabilities	65,096,187	5,212,929	69,744	56,972	70,435,832
Unallocated corporate liabilities					147,348
Consolidated total liabilities					<u>70,583,180</u>

Other information - amounts included in the measure of segment results and segment assets

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the year	10,084	666	1,287	63	235,851	247,951
Depreciation	31,287	1,616	5,818	108	15,913	54,742
Release of prepaid lease payments for land	66	—	—	—	—	66
Impairment losses on available-for-sale securities	—	—	—	(4,473)	—	(4,473)

(b) Geographical information

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

Details of geographical information are set out below:

	2012						
	Total operating income	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments	Non- current assets	Capital expenditure during the year
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	1,220,635	569,471	78,627,449	72,677,568	22,673,877	1,286,546	68,057
Macau and Shantou, Mainland China	85,984	67,172	1,533,533	631,873	376,181	12,915	2,004
America	16,162	9,742	594,383	71,844	15,215	170	44
Total	<u>1,322,781</u>	<u>646,385</u>	<u>80,755,365</u>	<u>73,381,285</u>	<u>23,065,273</u>	<u>1,299,631</u>	<u>70,105</u>
	2011						
	Total operating income	Profit before taxation	Total assets	Total liabilities	Total contingent liabilities and commitments	Non- current assets	Capital expenditure during the year
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong (restated)	1,211,607	588,642	75,418,775	69,606,383	17,496,575	1,239,949	247,621
Macau and Shantou, Mainland China	89,786	72,124	1,490,218	889,429	263,082	12,913	234
America	13,409	6,886	546,919	87,368	37,677	172	96
Total (restated)	<u>1,314,802</u>	<u>667,652</u>	<u>77,455,912</u>	<u>70,583,180</u>	<u>17,797,334</u>	<u>1,253,034</u>	<u>247,951</u>

Note: Total operating income consists of net interest income, net fee and commission income, net gains (losses) on financial instruments at fair value through profit or loss, net gains (losses) on fair value hedge and other operating income.

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

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.

Risk management is carried out by the Asset and Liability Management Committee (the "ALCO") and the Loans Committee under policies approved by the Board of Directors and the Risk Management and Compliance Committee (the "RMCC"). The ALCO identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board and the RMCC provide 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	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Fair value through profit or loss				
- designated at fair value	1,213,149	1,845,282	1,213,149	1,845,282
- held for trading	21,407	13,808	21,146	13,501
- derivative instruments in designated hedge accounting relationship	166,765	116,055	166,765	116,055
Available-for-sale securities	4,222,217	1,846,485	4,130,090	1,765,800
Held-to-maturity securities	9,600,020	8,288,082	9,600,020	8,288,082
Loans and receivables (including cash and cash equivalents)	<u>64,230,608</u>	<u>64,076,239</u>	<u>64,231,145</u>	<u>64,144,474</u>
Financial liabilities				
Fair value through profit or loss				
- held for trading	118,154	203,110	118,154	203,110
- derivative instruments in designated hedge accounting relationship	130,502	62,586	130,502	62,586
Amortised cost	<u>73,092,728</u>	<u>70,279,411</u>	<u>73,700,780</u>	<u>70,942,119</u>

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 end of the reporting period. 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 end of the reporting period. 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 Hong Kong 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 standards required, and are required to provide an independent credit evaluation in support of a recommendation for granting or rejecting the advance and the subsequent renewal applications.

Credit approval is performed by the Loans Committee in accordance with the delegated lending authority from the Lending Policy of the Group 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.

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 and commercial 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 losses, the Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Estimates of fair value of collateral are based on the fair value of collateral determined using valuation techniques commonly used for the corresponding assets at the time of borrowing, and generally not updated except when a loan is individually impaired. When a loan is identified as impaired, the corresponding fair value of collateral of that loan is updated by reference to market value such as recent transaction price of properties.

(b) Other risk mitigations

The Group uses guarantees 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.

Impairment and provisioning policies

Impairment allowances are recognised for financial reporting purposes and only for losses that have been incurred at the end of each reporting period based on objective evidence of impairment.

The impairment allowances shown in the statements of financial position is 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.

Based on the loan usage or the principal business activities of the borrowers, where applicable with reference to the regulatory reporting criteria, the Group's gross advances to customers (including advances booked in overseas branches and subsidiaries) are analysed and reported as follows:

	31 December 2012				
	Gross loans and advances	Collective impairment allowances	Individual impairment allowances	Loans and advances secured by collateral	Gross impaired advances
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>				
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,366,467	1,347	—	769,767	—
- Property investment	8,924,108	—	1,774	8,857,224	1,774
- Financial concerns	1,741,910	—	—	1,131,827	—
- Stockbrokers	594,689	150	—	438,481	—
- Wholesale and retail trade	1,460,007	5,157	3,273	1,085,418	3,273
- Manufacturing	1,677,166	557	1,098	994,699	1,098
- Transport and transport equipment	754,094	—	—	696,577	—
- Recreational activities	2,154	8	—	2,154	—
- Information technology	15,320	108	—	75	—
- Others (Note 2)	7,114,661	25,619	4,669	3,556,824	4,669
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	475,392	—	—	475,392	—
- Loans for the purchase of other residential properties	6,613,370	238	—	6,611,275	—
- Credit card advances	109,491	4,883	328	2,947	375
- Others (Note 3)	<u>1,717,229</u>	<u>6,561</u>	<u>2,181</u>	<u>1,354,133</u>	<u>2,181</u>
	32,566,058	44,628	13,323	25,976,793	13,370
Trade finance	1,246,727	29,924	8,516	427,959	8,516
Loans for use outside Hong Kong	<u>5,379,404</u>	<u>89,954</u>	<u>2,215</u>	<u>2,564,067</u>	<u>2,308</u>
	<u><u>39,192,189</u></u>	<u><u>164,506</u></u>	<u><u>24,054</u></u>	<u><u>28,968,819</u></u>	<u><u>24,194</u></u>

Note 1: The amount of loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.

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

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

31 December 2011

	Gross loans and advances <i>HK\$'000</i>	Collective impairment allowances <i>HK\$'000</i>	Individual impairment allowances <i>HK\$'000</i>	Loans and advances secured by collateral <i>HK\$'000</i> <i>(Note 1)</i>	Gross impaired advances <i>HK\$'000</i>
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	2,320,064	2,531	—	725,399	—
- Property investment	8,865,657	—	2,120	8,761,108	1,773
- Financial concerns	2,429,291	—	—	1,285,610	—
- Stockbrokers	577,841	179	—	518,642	—
- Wholesale and retail trade	1,562,043	6,081	5,284	802,006	6,182
- Manufacturing	1,616,168	590	5,452	816,796	9,777
- Transport and transport equipment	881,549	—	—	469,532	—
- Recreational activities	1,089	5	—	1,089	—
- Information technology	424	52	—	178	—
- Others <i>(Note 2)</i>	8,015,559	31,083	6,324	3,393,053	25,598
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	527,447	—	—	527,443	—
- Loans for the purchase of other residential properties	6,459,070	257	—	6,456,622	—
- Credit card advances	76,156	5,507	228	6,698	314
- Others <i>(Note 3)</i>	<u>1,686,550</u>	<u>7,117</u>	<u>5,914</u>	<u>1,323,649</u>	<u>9,897</u>
	35,018,908	53,402	25,322	25,087,825	53,541
Trade finance	1,183,074	31,055	12,243	405,584	21,956
Loans for use outside Hong Kong	<u>5,136,502</u>	<u>87,558</u>	<u>2,988</u>	<u>2,285,455</u>	<u>2,692</u>
	<u>41,338,484</u>	<u>172,015</u>	<u>40,553</u>	<u>27,778,864</u>	<u>78,189</u>

Note 1: The amount of loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.

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

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

The Group'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 losses at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses the fair value of 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 considering the historical loss experience in portfolios of similar credit risk characteristics. The management has also made judgement as to whether the current economic and credit conditions are such that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

Concentration of risks of financial assets with credit risk exposure

Concentration of credit risk exists when changes in geographical or industry factors similarly affect 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 that best represent the maximum exposure to credit risk is disclosed below.

The geographical locations of the financial assets are determined by the locations of the counterparties with the ultimate credit exposures, as assessed by the directors.

Geographical locations

	THE GROUP				THE BANK			
	Hong Kong	Asia Pacific excluding Hong Kong	Others	Total	Hong Kong	Asia Pacific excluding Hong Kong	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note 1)	(Note 2)			(Note 1)	(Note 2)	
At 31 December 2012								
Short-term funds	6,884,344	6,751,760	3,322,717	16,958,821	6,873,958	6,751,760	3,322,717	16,948,435
Placements with banks and other financial institutions	312,939	4,290,656	185,918	4,789,513	299,142	4,290,656	185,918	4,775,716
Derivative financial instruments	14,263	8,146	165,502	187,911	14,263	8,146	165,502	187,911
Financial assets at fair value through profit or loss	555,726	238,322	419,101	1,213,149	555,726	238,322	419,101	1,213,149
Available-for-sale debt securities	2,203,479	327,725	1,462,336	3,993,540	2,203,479	327,725	1,462,336	3,993,540
Held-to-maturity securities	2,291,716	6,128,890	1,179,414	9,600,020	2,291,716	6,128,890	1,179,414	9,600,020
Advances and other accounts	37,635,486	3,536,803	936,929	42,109,218	37,417,697	3,530,953	936,929	41,885,579
Amounts due from subsidiaries	—	—	—	—	248,376	—	—	248,376
	<u>49,897,953</u>	<u>21,282,302</u>	<u>7,671,917</u>	<u>78,852,172</u>	<u>49,904,357</u>	<u>21,276,452</u>	<u>7,671,917</u>	<u>78,852,726</u>

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

Note 1: The countries reported in “Asia Pacific excluding Hong Kong” mainly included the PRC, Japan, Australia and other Asian countries.

Note 2: The countries reported in “Others” covered mainly Canada, United States and certain European countries.

	THE GROUP				THE BANK			
	Asia Pacific excluding Hong Kong			Total	Asia Pacific excluding Hong Kong			Total
	Hong Kong	Hong Kong	Others		Hong Kong	Hong Kong	Others	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	(Note 1)	(Note 2)			(Note 1)	(Note 2)		
At 31 December 2011								
Short-term funds	9,838,507	7,133,830	1,162,969	18,135,306	9,827,998	7,133,830	1,162,969	18,124,797
Placements with banks and other financial institutions	172,066	1,996,941	—	2,169,007	137,878	1,996,941	—	2,134,819
Derivative financial instruments	6,157	5,321	118,078	129,556	6,157	5,321	118,078	129,556
Financial assets at fair value through profit or loss	1,012,867	228,820	603,595	1,845,282	1,012,867	228,820	603,595	1,845,282
Available-for-sale debt securities	901,640	310,891	427,115	1,639,646	901,640	310,891	427,115	1,639,646
Held-to-maturity securities	1,779,492	3,970,768	2,537,822	8,288,082	1,779,492	3,970,768	2,537,822	8,288,082
Advances and other accounts	39,830,076	2,521,798	896,082	43,247,956	39,717,983	2,515,970	896,082	43,130,035
Amounts due from subsidiaries	—	—	—	—	230,891	—	—	230,891
	<u>53,540,805</u>	<u>16,168,369</u>	<u>5,745,661</u>	<u>75,454,835</u>	<u>53,614,906</u>	<u>16,162,541</u>	<u>5,745,661</u>	<u>75,523,108</u>

Note 1: The countries reported in “Asia Pacific excluding Hong Kong” mainly included the PRC, Australia, Taiwan and other Asian countries.

Note 2: The countries reported in “Others” covered mainly Canada, United States and certain European countries.

Industry sectors

	THE GROUP					Total HK\$'000
	Banks and other 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 2012						
Short-term funds	16,060,006	898,815	—	—	—	16,958,821
Placements with banks and other financial institutions	4,789,513	—	—	—	—	4,789,513
Derivative financial instruments	183,024	—	—	4,817	70	187,911
Financial assets at fair value through profit or loss	419,101	—	—	794,048	—	1,213,149
Available-for-sale debt securities	323,709	—	56,016	3,613,815	—	3,993,540
Held-to-maturity securities	7,809,345	3,382	196,401	1,590,892	—	9,600,020
Advances and other accounts	<u>2,798,881</u>	<u>78,607</u>	<u>176,750</u>	<u>28,381,537</u>	<u>10,673,443</u>	<u>42,109,218</u>
	<u>32,383,579</u>	<u>980,804</u>	<u>429,167</u>	<u>34,385,109</u>	<u>10,673,513</u>	<u>78,852,172</u>
At 31 December 2011						
Short-term funds	14,440,981	3,694,325	—	—	—	18,135,306
Placements with banks and other financial institutions	2,169,007	—	—	—	—	2,169,007
Derivative financial instruments	123,860	—	—	5,517	179	129,556
Financial assets at fair value through profit or loss	417,647	—	—	1,427,635	—	1,845,282
Available-for-sale debt securities	232,475	—	56,566	1,350,605	—	1,639,646
Held-to-maturity securities	6,823,243	130,797	185,187	1,148,855	—	8,288,082
Advances and other accounts	<u>1,855,605</u>	<u>110,201</u>	<u>144,935</u>	<u>30,462,988</u>	<u>10,674,227</u>	<u>43,247,956</u>
	<u>26,062,818</u>	<u>3,935,323</u>	<u>386,688</u>	<u>34,395,600</u>	<u>10,674,406</u>	<u>75,454,835</u>

	THE BANK					Total HK\$'000
	Banks and other 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 2012						
Short-term funds	16,049,620	898,815	—	—	—	16,948,435
Placements with banks and other financial institutions	4,775,716	—	—	—	—	4,775,716
Derivative financial instruments	183,024	—	—	4,817	70	187,911
Financial assets at fair value through profit or loss	419,101	—	—	794,048	—	1,213,149
Available-for-sale debt securities	323,709	—	56,016	3,613,815	—	3,993,540
Held-to-maturity securities	7,809,345	3,382	196,401	1,590,892	—	9,600,020
Advances and other accounts	2,798,193	78,607	176,750	28,158,586	10,673,443	41,885,579
Amounts due from subsidiaries	—	—	—	248,376	—	248,376
	<u>32,358,708</u>	<u>980,804</u>	<u>429,167</u>	<u>34,410,534</u>	<u>10,673,513</u>	<u>78,852,726</u>
At 31 December 2011						
Short-term funds	14,430,472	3,694,325	—	—	—	18,124,797
Placements with banks and other financial institutions	2,134,819	—	—	—	—	2,134,819
Derivative financial instruments	123,860	—	—	5,517	179	129,556
Financial assets at fair value through profit or loss	417,647	—	—	1,427,635	—	1,845,282
Available-for-sale debt securities	232,475	—	56,566	1,350,605	—	1,639,646
Held-to-maturity securities	6,823,243	130,797	185,187	1,148,855	—	8,288,082
Advances and other accounts	1,854,672	110,201	144,935	30,346,000	10,674,227	43,130,035
Amounts due from subsidiaries	—	—	—	230,891	—	230,891
	<u>26,017,188</u>	<u>3,935,323</u>	<u>386,688</u>	<u>34,509,503</u>	<u>10,674,406</u>	<u>75,523,108</u>

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

Maximum exposure to credit risk relating to assets on the statements of financial position are as follows:

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term funds	16,958,821	18,135,306	16,948,435	18,124,797
Placements with banks and other financial institutions	4,789,513	2,169,007	4,775,716	2,134,819
Derivative financial instruments	187,911	129,556	187,911	129,556
Financial assets at fair value through profit or loss	1,213,149	1,845,282	1,213,149	1,845,282
Available-for-sale debt securities	3,993,540	1,639,646	3,993,540	1,639,646
Held-to-maturity securities	9,600,020	8,288,082	9,600,020	8,288,082
Advances and other accounts	42,109,218	43,247,956	41,885,579	43,130,035
Amounts due from subsidiaries	—	—	248,376	230,891
	<u>78,852,172</u>	<u>75,454,835</u>	<u>78,852,726</u>	<u>75,523,108</u>

Maximum exposure to credit risk relating to items unrecorded in the statements of financial position are as follows:

	THE GROUP AND THE BANK	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Direct credit substitutes	1,077,350	1,163,474
Trade-related contingencies	425,309	373,802
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	10,557,895	9,303,915
	<u>12,060,554</u>	<u>10,841,191</u>

Credit quality

Credit quality of loans and advances to customers, excluding interest receivable, are summarised as follows:

	THE GROUP AND THE BANK	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired	38,934,792	41,081,600
Past due but not impaired	233,203	178,695
Impaired	24,194	78,189
	<u>39,192,189</u>	<u>41,338,484</u>
Less: Allowances for impairment	(188,560)	(212,568)
	<u><u>39,003,629</u></u>	<u><u>41,125,916</u></u>

(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 which is also the classification system required to be adopted for reporting to the Hong Kong Monetary Authority.

	THE GROUP AND THE BANK								
	Overdrafts	Instalment loans	Term loans	Syndication loans	Foreign currency loans	Trade finance	Personal loans and tax loans	Others	Total
At 31 December 2012									
GRADES:									
Pass	1,495,026	18,810,942	12,112,179	4,330,509	70,306	1,205,818	134,538	722,322	38,881,640
Special mention	13,446	8,967	—	—	—	3,978	461	—	26,852
Substandard or below	603	21,853	—	—	—	3,844	—	—	26,300
Total	<u>1,509,075</u>	<u>18,841,762</u>	<u>12,112,179</u>	<u>4,330,509</u>	<u>70,306</u>	<u>1,213,640</u>	<u>134,999</u>	<u>722,322</u>	<u>38,934,792</u>
At 31 December 2011									
GRADES:									
Pass	1,595,548	17,836,973	13,193,145	6,309,391	219,105	1,131,749	106,180	522,757	40,914,848
Special mention	14,842	28,774	2,300	—	—	2,514	343	—	48,773
Substandard or below	742	15,673	50	95,127	—	6,387	—	—	117,979
Total	<u>1,611,132</u>	<u>17,881,420</u>	<u>13,195,495</u>	<u>6,404,518</u>	<u>219,105</u>	<u>1,140,650</u>	<u>106,523</u>	<u>522,757</u>	<u>41,081,600</u>

(ii) *Loans and advances past due but not impaired*

Gross amount of loans and advances by class of 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 and tax loans HK\$'000	Others HK\$'000	
At 31 December 2012								
Past due up to 30 days	397	544	122,422	—	9,063	—	—	132,426
Past due from 31 to 90 days	2,815	4,142	—	—	—	129	1,740	8,826
Past due more than 90 days	2,088	14,449	—	75,406	—	8	—	91,951
Total	5,300	19,135	122,422	75,406	9,063	137	1,740	233,203
Fair value of collateral	20,573	96,049	308,434	1,276,692	29,412	370	—	1,731,530
Loans and advances secured by collateral (<i>Note</i>)	4,757	18,881	121,200	75,406	9,063	8	—	229,315
At 31 December 2011								
Past due up to 30 days	508	3,725	—	—	5,181	245	—	9,659
Past due from 31 to 90 days	136	9,548	120,422	—	3,354	106	1,375	134,941
Past due more than 90 days	22,113	11,982	—	—	—	—	—	34,095
Total	22,757	25,255	120,422	—	8,535	351	1,375	178,695
Fair value of collateral	59,512	136,619	251,313	—	21,979	370	—	469,793
Loans and advances secured by collateral (<i>Note</i>)	22,620	25,251	120,422	—	8,535	41	—	176,869

Collateral is mainly properties and fixed deposits.

Note: The amount of loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.

(iii) *Loans and advances individually impaired***Loans and advances to customers**

The breakdown of the gross amount of individually impaired loans and advances by class of customers are as follows:

	THE GROUP AND THE BANK						Total HK\$'000
	Overdrafts HK\$'000	Instalment loans HK\$'000	Term loans HK\$'000	Trade finance HK\$'000	Personal		
					loans and tax loans HK\$'000	Others HK\$'000	
At 31 December 2012							
Individually impaired loans	6,615	5,503	2,080	9,845	43	108	24,194
Fair value of collateral	49,989	26,646	—	—	—	—	76,635
Loans and advances secured by collateral (<i>Note</i>)	3,339	4,082	—	—	—	—	7,421
At 31 December 2011							
Individually impaired loans	24,647	17,878	13,012	22,426	61	165	78,189
Fair value of collateral	55,342	20,739	19,448	11,549	—	—	107,078
Loans and advances secured by collateral (<i>Note</i>)	14,526	7,027	13,012	10,741	—	—	45,306

Collateral is mainly properties and fixed deposits.

Note: The amount of loans and advances secured by collateral is determined as the lower of the market value of collateral or outstanding loan principal.

(iv) *Advances to banks and other financial institutions*

As at 31 December 2012 and 31 December 2011, the advances to banks are neither past due nor impaired and unsecured.

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 by rating agency designation at the end of the reporting period, based on Moody's ratings. Financial securities not rated by Moody's are treated as unrated ones.

	THE GROUP AND THE BANK			
	Financial assets at fair value through profit or loss	Available-for- sale debt securities	Held-to- maturity securities	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2012				
Aaa	—	—	—	—
Aa1 to Aa3	470,820	379,724	4,270,459	5,121,003
A1 to A3	186,603	1,200,355	3,970,694	5,357,652
Lower than A3	—	1,594,132	77,293	1,671,425
Unrated	555,726	819,329	1,281,574	2,656,629
Total	<u>1,213,149</u>	<u>3,993,540</u>	<u>9,600,020</u>	<u>14,806,709</u>
At 31 December 2011				
Aaa	—	—	374,419	374,419
Aa1 to Aa3	210,434	328,647	5,494,492	6,033,573
A1 to A3	207,213	472,162	2,057,243	2,736,618
Lower than A3	132,193	755,665	23,301	911,159
Unrated	1,295,442	83,172	338,627	1,717,241
Total	<u>1,845,282</u>	<u>1,639,646</u>	<u>8,288,082</u>	<u>11,773,010</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	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Residential properties	31,000	52,100
Others	17,320	10,950
	<u>48,320</u>	<u>63,050</u>

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

Market risk

The Group takes 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 separates exposures to market risk into either trading or non-trading portfolios.

Trading portfolios include those positions arising from market-making transactions where the Group acts 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 held-to-maturity and available-for-sale investments.

Management of market risk

The management of market risk is principally undertaken in treasury function using risk limits approved by the Board of Directors or its designated committee. 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 risks.

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.

Currency risk

The Group undertakes 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 does not have any significant foreign exchange risk as foreign exchange dealing is moderate. Day-to-day foreign exchange management is performed by the Treasury Department within approved limits.

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

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

The following table indicates the concentration of currency risk at the end of each reporting periods:

	THE GROUP					
	HK\$	US\$	MOP	RMB	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note)</i>					
At 31 December 2012						
Assets						
Cash and short-term funds	11,201,394	2,510,425	77,404	1,521,510	2,021,144	17,331,877
Placements with banks and other financial institutions	2,266,032	1,008,613	—	749,387	765,481	4,789,513
Derivative financial instruments	5,071	167,381	—	—	15,459	187,911
Financial assets at fair value through profit or loss	671,394	542,016	—	—	—	1,213,410
Available-for-sale securities	188,493	4,000,071	—	31,090	2,563	4,222,217
Held-to-maturity securities	2,850,564	4,270,494	—	643,456	1,835,506	9,600,020
Advances to customers	36,988,292	1,355,011	25,591	726,984	96,311	39,192,189
Advances to banks and other financial institutions	30,614	—	—	2,134,228	—	2,164,842
Other financial assets	272,626	142,257	2,372	325,344	9,588	752,187
Total financial assets	<u>54,474,480</u>	<u>13,996,268</u>	<u>105,367</u>	<u>6,131,999</u>	<u>4,746,052</u>	<u>79,454,166</u>
Liabilities						
Deposits and balances of banks and other financial institutions	882,850	510,438	—	422,824	27,365	1,843,477
Financial assets sold under repurchase agreements	—	433,681	—	—	—	433,681
Deposits from customers	51,320,386	6,114,896	47,384	3,956,597	6,069,485	67,508,748
Certificates of deposit	465,927	77,378	—	124,331	—	667,636
Derivative financial instruments	118,451	129,581	—	—	624	248,656
Loan capital	—	1,898,957	—	—	—	1,898,957
Other financial liabilities	633,795	44,931	604	33,671	27,228	740,229
Total financial liabilities	<u>53,421,409</u>	<u>9,209,862</u>	<u>47,988</u>	<u>4,537,423</u>	<u>6,124,702</u>	<u>73,341,384</u>
Net position - total financial assets and liabilities	<u>1,053,071</u>	<u>4,786,406</u>	<u>57,379</u>	<u>1,594,576</u>	<u>(1,378,650)</u>	<u>6,112,782</u>

Note: Currencies included in "Others" mainly represented Australian dollars and New Zealand dollars.

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	THE GROUP					
	HK\$	US\$	MOP	RMB	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(Note)</i>	
At 31 December 2011						
Assets						
Cash and short-term funds	9,636,360	1,443,909	101,355	3,304,445	4,173,207	18,659,276
Placements with banks and other financial institutions	1,258,367	93,202	—	391,720	425,718	2,169,007
Derivative financial instruments	6,886	116,341	—	1,385	4,944	129,556
Financial assets at fair value through profit or loss	936,072	909,517	—	—	—	1,845,589
Available-for-sale securities	171,315	1,643,956	—	28,493	2,721	1,846,485
Held-to-maturity securities	3,097,832	3,608,463	—	528,129	1,053,658	8,288,082
Advances to customers	38,356,717	1,422,300	2,289	1,370,495	186,683	41,338,484
Advances to banks and other financial institutions	884,888	428,984	—	191,537	—	1,505,409
Other financial assets	41,449	135,399	4,729	185,357	37,129	404,063
Total financial assets	<u>54,389,886</u>	<u>9,802,071</u>	<u>108,373</u>	<u>6,001,561</u>	<u>5,884,060</u>	<u>76,185,951</u>
Liabilities						
Deposits and balances of banks and other financial institutions	727,594	277,051	—	—	82,191	1,086,836
Financial assets sold under repurchase agreements	—	420,652	—	—	—	420,652
Deposits from customers	47,477,776	5,980,154	55,381	5,069,501	6,232,901	64,815,713
Certificates of deposit	853,518	86,207	—	605,837	—	1,545,562
Derivative financial instruments	121,913	138,847	—	534	4,402	265,696
Loan capital	—	1,852,153	—	—	—	1,852,153
Other financial liabilities	478,960	48,918	312	14,508	15,797	558,495
Total financial liabilities	<u>49,659,761</u>	<u>8,803,982</u>	<u>55,693</u>	<u>5,690,380</u>	<u>6,335,291</u>	<u>70,545,107</u>
Net position - total financial assets and liabilities	<u>4,730,125</u>	<u>998,089</u>	<u>52,680</u>	<u>311,181</u>	<u>(451,231)</u>	<u>5,640,844</u>

Note: Currencies included in "Others" mainly represented Australian dollars and New Zealand dollars.

	THE BANK					
	HK\$	US\$	MOP	RMB	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Note)	
At 31 December 2012						
Assets						
Cash and short-term funds	11,190,991	2,510,425	77,404	1,521,510	2,021,144	17,321,474
Placements with banks and other financial institutions	2,252,235	1,008,613	—	749,387	765,481	4,775,716
Derivative financial instruments	5,071	167,381	—	—	15,459	187,911
Financial assets at fair value through profit or loss	671,133	542,016	—	—	—	1,213,149
Available-for-sale securities	96,366	4,000,071	—	31,090	2,563	4,130,090
Held-to-maturity securities	2,850,564	4,270,494	—	643,456	1,835,506	9,600,020
Advances to customers	36,988,292	1,355,011	25,591	726,984	96,311	39,192,189
Advances to banks and other financial institutions	30,614	—	—	2,134,228	—	2,164,842
Other financial assets	303,212	142,257	2,372	319,495	9,588	776,924
Total financial assets	54,388,478	13,996,268	105,367	6,126,150	4,746,052	79,362,315
Liabilities						
Deposits and balances of banks and other financial institutions	882,850	510,438	—	422,824	27,365	1,843,477
Financial assets sold under repurchase agreements	—	433,681	—	—	—	433,681
Deposits from customers	51,320,386	6,114,896	47,384	3,956,597	6,069,485	67,508,748
Certificates of deposit	465,927	77,378	—	124,331	—	667,636
Derivative financial instruments	118,451	129,581	—	—	624	248,656
Loan capital	—	1,898,957	—	—	—	1,898,957
Other financial liabilities	1,241,847	44,931	604	33,671	27,228	1,348,281
Total financial liabilities	54,029,461	9,209,862	47,988	4,537,423	6,124,702	73,949,436
Net position - total financial assets and liabilities	359,017	4,786,406	57,379	1,588,727	(1,378,650)	5,412,879

Note: Currencies included in "Others" mainly represented Australian dollars and New Zealand dollars.

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	THE BANK					
	HK\$	US\$	MOP	RMB	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(Note)</i>	
At 31 December 2011						
Assets						
Cash and short-term funds	9,625,813	1,443,909	101,355	3,304,445	4,173,207	18,648,729
Placements with banks and other financial institutions	1,224,179	93,202	—	391,720	425,718	2,134,819
Derivative financial instruments	6,886	116,341	—	1,385	4,944	129,556
Financial assets at fair value through profit or loss	935,765	909,517	—	—	—	1,845,282
Available-for-sale securities	90,630	1,643,956	—	28,493	2,721	1,765,800
Held-to-maturity securities	3,097,832	3,608,463	—	528,129	1,053,658	8,288,082
Advances to customers	38,356,717	1,422,300	2,289	1,370,495	186,683	41,338,484
Advances to banks and other financial institutions	884,888	428,984	—	191,537	—	1,505,409
Other financial assets	<u>160,248</u>	<u>135,399</u>	<u>4,729</u>	<u>179,528</u>	<u>37,129</u>	<u>517,033</u>
Total financial assets	<u>54,382,958</u>	<u>9,802,071</u>	<u>108,373</u>	<u>5,995,732</u>	<u>5,884,060</u>	<u>76,173,194</u>
Liabilities						
Deposits and balances of banks and other financial institutions	727,594	277,051	—	—	82,191	1,086,836
Financial assets sold under repurchase agreements	—	420,652	—	—	—	420,652
Deposits from customers	47,477,645	5,980,154	55,381	5,069,501	6,232,901	64,815,582
Certificates of deposit	853,518	86,207	—	605,837	—	1,545,562
Derivative financial instruments	121,913	138,847	—	534	4,402	265,696
Loan capital	—	1,852,153	—	—	—	1,852,153
Other financial liabilities	<u>1,141,799</u>	<u>48,918</u>	<u>312</u>	<u>14,508</u>	<u>15,797</u>	<u>1,221,334</u>
Total financial liabilities	<u>50,322,469</u>	<u>8,803,982</u>	<u>55,693</u>	<u>5,690,380</u>	<u>6,335,291</u>	<u>71,207,815</u>
Net position - total financial assets and liabilities	<u>4,060,489</u>	<u>998,089</u>	<u>52,680</u>	<u>305,352</u>	<u>(451,231)</u>	<u>4,965,379</u>

Note: Currencies included in "Others" mainly represented Australian dollars and New Zealand dollars.

The Group and the Bank entered into a number of foreign currency forward contracts to manage the currency risk exposure, details of which are set out in Note 18.

Foreign currency sensitivity

The Group is mainly exposed to US dollars, Renminbi and Macau Pataca. The following table details the Group's sensitivity to a 1 per cent change in Hong Kong dollars against the US dollars and Macau Pataca, and 10 percent change in Hong Kong dollars against Renminbi. 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 exposure to foreign currency risk at the end of the reporting period have been determined based on the foreign exchange rates adjusted at the end of the reporting period.

	Change in currency rate					
	US Dollars		Renminbi		Macau Pataca	
	<i>Appreciate</i>	<i>Depreciate</i>	<i>Appreciate</i>	<i>Depreciate</i>	<i>Appreciate</i>	<i>Depreciate</i>
	+1%	-1%	+10%	-10%	+1%	-1%
THE GROUP						
Hong Kong dollars equivalents (HK\$'000)						
2012						
Profit after tax	<u>258</u>	<u>(258)</u>	<u>3,351</u>	<u>(3,351)</u>	<u>89</u>	<u>(89)</u>
2011						
Profit after tax	<u>102</u>	<u>(102)</u>	<u>3,691</u>	<u>(3,691)</u>	<u>42</u>	<u>(42)</u>
THE BANK						
2012						
Profit after tax	<u>258</u>	<u>(258)</u>	<u>2,766</u>	<u>(2,766)</u>	<u>89</u>	<u>(89)</u>
2011						
Profit after tax	<u>102</u>	<u>(102)</u>	<u>3,109</u>	<u>(3,109)</u>	<u>42</u>	<u>(42)</u>

Numbers in bracket mean decrease.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both 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 measures the exposure of its assets and liabilities to fluctuations in interest rates primarily by way of interest rate gap analysis which shows the Group's interest rate risk arising from the mis-matches between contractual maturities and re-pricing of interest-generating assets and interest-bearing liabilities.

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

	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 2012						
Assets						
Cash and short-term funds	16,789,099	98,531	—	—	444,247	17,331,877
Placements with banks and other financial institutions	3,948,937	840,576	—	—	—	4,789,513
Derivative financial instruments	—	—	—	—	187,911	187,911
Financial assets at fair value through profit or loss	1,182,407	—	30,742	—	261	1,213,410
Available-for-sale securities	3,990,868	—	—	—	231,349	4,222,217
Held-to-maturity securities	7,061,580	1,837,563	459,439	239,438	2,000	9,600,020
Advances to customers	37,923,395	975,072	102,911	24,158	166,653	39,192,189
Advances to banks and other financial institutions	1,470,328	694,514	—	—	—	2,164,842
Other financial assets	133,194	112,616	—	—	506,377	752,187
Total financial assets	72,499,808	4,558,872	593,092	263,596	1,538,798	79,454,166
Liabilities						
Deposits and balances of banks and other financial institutions	1,469,018	344,484	—	—	29,975	1,843,477
Financial assets sold under repurchase agreements	354,801	78,880	—	—	—	433,681
Deposits from customers	55,432,728	6,748,130	88,972	—	5,238,918	67,508,748
Certificates of deposit	590,258	77,378	—	—	—	667,636
Derivative financial instruments	—	—	—	—	248,656	248,656
Loan capital	1,898,957	—	—	—	—	1,898,957
Other financial liabilities	—	—	—	—	740,229	740,229
Total financial liabilities	59,745,762	7,248,872	88,972	—	6,257,778	73,341,384
Net position - total financial assets and liabilities	12,754,046	(2,690,000)	504,120	263,596	(4,718,980)	6,112,782

	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 2011						
Assets						
Cash and short-term funds	18,043,971	—	—	—	615,305	18,659,276
Placements with banks and other financial institutions	1,596,870	572,137	—	—	—	2,169,007
Derivative financial instruments	—	—	—	—	129,556	129,556
Financial assets at fair value through profit or loss	1,772,526	—	27,250	—	45,813	1,845,589
Available-for-sale securities	1,638,649	—	—	—	207,836	1,846,485
Held-to-maturity securities	5,647,050	2,091,586	306,564	240,882	2,000	8,288,082
Advances to customers	40,277,961	878,726	77,692	2,091	102,014	41,338,484
Advances to banks and other financial institutions	745,720	759,689	—	—	—	1,505,409
Other financial assets	161,943	38,000	—	—	204,120	404,063
Total financial assets	<u>69,884,690</u>	<u>4,340,138</u>	<u>411,506</u>	<u>242,973</u>	<u>1,306,644</u>	<u>76,185,951</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,075,361	—	—	—	11,475	1,086,836
Financial assets sold under repurchase agreements	420,652	—	—	—	—	420,652
Deposits from customers	55,068,090	4,489,411	714,783	—	4,543,429	64,815,713
Certificates of deposit	279,792	1,265,770	—	—	—	1,545,562
Derivative financial instruments	—	—	—	—	265,696	265,696
Loan capital	1,852,153	—	—	—	—	1,852,153
Other financial liabilities	—	—	—	—	558,495	558,495
Total financial liabilities	<u>58,696,048</u>	<u>5,755,181</u>	<u>714,783</u>	<u>—</u>	<u>5,379,095</u>	<u>70,545,107</u>
Net position - total financial assets and liabilities	<u>11,188,642</u>	<u>(1,415,043)</u>	<u>(303,277)</u>	<u>242,973</u>	<u>(4,072,451)</u>	<u>5,640,844</u>

	THE BANK					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 2012						
Assets						
Cash and short-term funds	16,789,099	98,531	—	—	433,844	17,321,474
Placements with banks and other financial institutions	3,946,248	829,468	—	—	—	4,775,716
Derivative financial instruments	—	—	—	—	187,911	187,911
Financial assets at fair value through profit or loss	1,182,407	—	30,742	—	—	1,213,149
Available-for-sale securities	3,990,868	—	—	—	139,222	4,130,090
Held-to-maturity securities	7,061,580	1,837,563	459,439	239,438	2,000	9,600,020
Advances to customers	37,923,395	975,072	102,911	24,158	166,653	39,192,189
Advances to banks and other financial institutions	1,470,328	694,514	—	—	—	2,164,842
Other financial assets	133,194	112,616	—	224,579	306,535	776,924
Total financial assets	<u>72,497,119</u>	<u>4,547,764</u>	<u>593,092</u>	<u>488,175</u>	<u>1,236,165</u>	<u>79,362,315</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,469,018	344,484	—	—	29,975	1,843,477
Financial assets sold under repurchase agreements	354,801	78,880	—	—	—	433,681
Deposits from customers	55,432,728	6,748,130	88,972	—	5,238,918	67,508,748
Certificates of deposit	590,258	77,378	—	—	—	667,636
Derivative financial instruments	—	—	—	—	248,656	248,656
Loan capital	1,898,957	—	—	—	—	1,898,957
Other financial liabilities	774,299	68,323	—	—	505,659	1,348,281
Total financial liabilities	<u>60,520,061</u>	<u>7,317,195</u>	<u>88,972</u>	<u>—</u>	<u>6,023,208</u>	<u>73,949,436</u>
Net position - total financial assets and liabilities	<u>11,977,058</u>	<u>(2,769,431)</u>	<u>504,120</u>	<u>488,175</u>	<u>(4,787,043)</u>	<u>5,412,879</u>

	THE BANK					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 2011						
Assets						
Cash and short-term funds	18,043,971	—	—	—	604,758	18,648,729
Placements with banks and other financial institutions	1,585,940	548,879	—	—	—	2,134,819
Derivative financial instruments	—	—	—	—	129,556	129,556
Financial assets at fair value through profit or loss	1,772,526	—	27,250	—	45,506	1,845,282
Available-for-sale securities	1,638,649	—	—	—	127,151	1,765,800
Held-to-maturity securities	5,647,050	2,091,586	306,564	240,882	2,000	8,288,082
Advances to customers	40,277,961	878,726	77,692	2,091	102,014	41,338,484
Advances to banks and other financial institutions	745,720	759,689	—	—	—	1,505,409
Other financial assets	161,942	38,000	—	229,581	87,510	517,033
Total financial assets	<u>69,873,759</u>	<u>4,316,880</u>	<u>411,506</u>	<u>472,554</u>	<u>1,098,495</u>	<u>76,173,194</u>
Liabilities						
Deposits and balances of banks and other financial institutions	1,075,361	—	—	—	11,475	1,086,836
Financial assets sold under repurchase agreements	420,652	—	—	—	—	420,652
Deposits from customers	55,067,959	4,489,411	714,783	—	4,543,429	64,815,582
Certificates of deposit	279,792	1,265,770	—	—	—	1,545,562
Derivative financial instruments	—	—	—	—	265,696	265,696
Loan capital	1,852,153	—	—	—	—	1,852,153
Other financial liabilities	777,470	12,400	—	—	431,464	1,221,334
Total financial liabilities	<u>59,473,387</u>	<u>5,767,581</u>	<u>714,783</u>	<u>—</u>	<u>5,252,064</u>	<u>71,207,815</u>
Net position - total financial assets and liabilities	<u>10,400,372</u>	<u>(1,450,701)</u>	<u>(303,277)</u>	<u>472,554</u>	<u>(4,153,569)</u>	<u>4,965,379</u>

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to floating interest rates at the end of the reporting period 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 in upwards and 10 basis point change in downwards are used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

	2012		2011	
	Change in basis points		Change in basis points	
	+100	-10	+100	-10
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Profit after tax	99,020	(9,902)	85,685	(8,569)
Other comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
THE BANK				
Profit after tax	100,780	(10,078)	87,318	(8,732)
Other comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

Numbers in bracket mean decrease.

Price risk

The Group is exposed to price risk arising from its listed investments in equity securities. Except for those classified as held for trading, the Group does not actively trade these investments. The sensitivity analysis below is determined based on 10% changes in the price of the underlying investments.

Price sensitivity

	2012		2011	
	Change in price		Change in price	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP				
Profit after tax	22	(22)	26	(26)
Other comprehensive income	<u>16,121</u>	<u>(16,121)</u>	<u>14,511</u>	<u>(14,511)</u>
THE BANK				
Profit after tax	—	—	—	—
Other comprehensive income	<u>8,760</u>	<u>(8,760)</u>	<u>8,105</u>	<u>(8,105)</u>

Numbers in bracket mean decrease.

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 Risk Management Policy is reviewed by the ALCO and approved by the RMCC of the Group, and key features of liquidity position are reviewed regularly by the Board of Directors and the RMCC 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 policy provides a foundation to other risk management tools including stress-testing and contingency funding plan.

The Group's RMCC recommends internal target levels in respect of the liquidity ratios and loan to deposit ratios. The Group's Head of Treasury Department is responsible for monitoring these ratios and, where a tight liquidity position remains for a prolonged period, the Head of Treasury Department 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 Bank has strong capital base and stable customer deposits which are its main funding sources. The Bank has also diversified to other funding sources including inter-bank deposit takings, certificates of deposit programme and through financial assets sold under repurchase agreements.

The following tables detail the Group'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, with reference to their respective contractual interest rate including those variable rate instrument by using the appropriate prevailing market rates as at the end of the reporting period as stated in their contracts, to those liabilities except where the Group is contractually entitled and intends to repay the liability before its maturity.

	THE GROUP						Total HK\$'000
	Repayable on demand HK\$'000	Repayable within 1 month HK\$'000	Repayable	Repayable	Repayable	Repayable	
			after 1 month but within 3 months HK\$'000	after 3 months but within 1 year HK\$'000	after 1 year but within 5 years HK\$'000	after 5 years HK\$'000	
Liabilities adjusted with interest payable							
At 31 December 2012							
Deposits and balances of banks and other financial institutions	35,287	814,592	673,006	351,040	—	—	1,873,925
Financial assets sold under repurchase agreements	—	354,818	—	79,452	—	—	434,270
Deposits from customers	26,837,810	19,923,589	14,023,223	6,844,017	90,110	—	67,718,749
Certificates of deposit	—	99,991	390,267	177,378	—	—	667,636
Loan capital	—	—	—	104,071	418,608	2,058,156	2,580,835
Other financial liabilities	401,414	9,091	60,677	105,047	14,907	—	591,136
Total undiscounted financial liabilities	27,274,511	21,202,081	15,147,173	7,661,005	523,625	2,058,156	73,866,551
At 31 December 2011							
Deposits and balances of banks and other financial institutions	18,820	1,004,156	70,145	3	—	—	1,093,124
Financial assets sold under repurchase agreements	—	—	138,480	284,671	—	—	423,151
Deposits from customers	22,875,781	24,551,615	12,311,218	4,539,343	750,198	—	65,028,155
Certificates of deposit	—	100,000	80,323	1,278,215	101,052	—	1,559,590
Loan capital	—	—	—	104,269	419,407	2,166,937	2,690,613
Other financial liabilities	339,237	5,993	32,576	44,280	21,601	—	443,687
Total undiscounted financial liabilities	23,233,838	25,661,764	12,632,742	6,250,781	1,292,258	2,166,937	71,238,320

	THE BANK						Total
	Repayable on demand	Repayable	Repayable	Repayable	Repayable	Repayable	
		within 1 month	1 month but within 3 months	3 months but within 1 year	1 year but within 5 years		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Liabilities adjusted with interest payable							
At 31 December 2012							
Deposits and balances of banks and other financial institutions	35,287	814,592	673,006	351,040	—	—	1,873,925
Financial assets sold under repurchase agreements	—	354,818	—	79,452	—	—	434,270
Deposits from customers	26,837,810	19,923,589	14,023,223	6,844,017	90,110	—	67,718,749
Certificates of deposit	—	99,991	390,267	177,378	—	—	667,636
Loan capital	—	—	—	104,071	418,608	2,058,156	2,580,835
Other financial liabilities	451,389	508,792	109,249	129,758	—	—	1,199,188
Total undiscounted financial liabilities	27,324,486	21,701,782	15,195,745	7,685,716	508,718	2,058,156	74,474,603
At 31 December 2011							
Deposits and balances of banks and other financial institutions	18,820	1,004,156	70,145	3	—	—	1,093,124
Financial assets sold under repurchase agreements	—	—	138,480	284,671	—	—	423,151
Deposits from customers	22,875,542	24,551,615	12,311,218	4,539,343	750,198	—	65,027,916
Certificates of deposit	—	100,000	80,323	1,278,215	101,052	—	1,559,590
Loan capital	—	—	—	104,269	419,407	2,166,937	2,690,613
Other financial liabilities	496,103	502,543	80,987	27,001	—	—	1,106,634
Total undiscounted financial liabilities	23,390,465	26,158,314	12,681,153	6,233,502	1,270,657	2,166,937	71,901,028

The following tables detail the Group'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 financial 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	1 - 3 months	3 months to 1 year	1 - 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2012						
Derivatives settled net Interest rate contracts						
- inflow (outflow)	(44)	(20,829)	16,361	(7,943)	40,534	28,079
Derivatives settled gross Exchange rate contracts						
- inflow	2,198,901	2,514,355	1,324,502	—	—	6,037,758
- outflow	(2,196,427)	(2,530,816)	(1,309,173)	—	—	(6,036,416)
	2,474	(16,461)	15,329	—	—	1,342
At 31 December 2011						
Derivatives settled net Interest rate contracts						
- inflow (outflow)	5,814	(41,132)	21,355	(30,191)	125,586	81,432
Derivatives settled gross Exchange rate contracts						
- inflow	431,043	473,846	413,555	—	—	1,318,444
- outflow	(430,557)	(469,590)	(411,731)	—	—	(1,311,878)
	486	4,256	1,824	—	—	6,566

The dates of the contractual amounts of the Group's and the Bank's commitments and contingencies unrecorded in the statements of financial position that commit them to extending credit to customers and other facilities and financial guarantees are set out in note 37 to the consolidated financial statements and summarised in the table below:

THE GROUP AND THE BANK	
No later than 1 year	
HK\$'000	
At 31 December 2012	
Direct credit substitutes	1,077,350
Trade-related contingencies	425,309
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	10,557,895
	<u>12,060,554</u>
At 31 December 2011	
Direct credit substitutes	1,163,474
Trade-relate contingencies	373,802
Undrawn formal standby facilities, credit lines and other commitments excluding those that are unconditionally cancellable without prior notice	9,303,915
	<u>10,841,191</u>

Analysis of assets and liabilities by remaining maturity

The maturity analysis of financial assets and liabilities shown on the statements of financial position, based on the remaining period at the end of the reporting period to the contractual maturity date is shown below:

	THE GROUP							Undated HK\$'000	Total HK\$'000
	Repayable on demand HK\$'000	Repayable within 1 month (except those repayable on demand) HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Repayable after 5 years HK\$'000		
At 31 December 2012									
Assets									
Cash and short-term funds	6,099,570	11,103,776	30,000	98,531	—	—	—	17,331,877	
Placements with banks and other financial institutions	—	—	3,948,937	840,576	—	—	—	4,789,513	
Derivative financial instruments	—	6,562	3,987	6,106	—	171,256	—	187,911	
Financial assets at fair value through profit or loss	—	—	—	216,196	996,953	—	261	1,213,410	
Available-for-sale securities	—	—	—	—	2,625,897	1,367,643	228,677	4,222,217	
Held-to-maturity securities	—	1,225,799	2,576,757	2,538,779	2,519,363	739,322	—	9,600,020	
Advances to customers	1,634,953	2,284,996	2,398,222	7,369,363	12,717,092	12,619,406	168,157	39,192,189	
Advances to banks and other financial institutions	—	105,497	1,364,831	694,514	—	—	—	2,164,842	
Other financial assets	327,140	128,130	193,336	181,311	94,216	—	(171,946)	752,187	
Total financial assets	8,061,663	14,854,760	10,516,070	11,945,376	18,953,521	14,897,627	225,149	79,454,166	
Liabilities									
Deposits and balances of banks and other financial institutions	35,287	803,806	659,900	344,484	—	—	—	1,843,477	
Financial assets sold under repurchase agreements	—	354,801	—	78,880	—	—	—	433,681	
Deposits from customers	26,837,602	19,872,678	13,961,059	6,748,437	88,972	—	—	67,508,748	
Certificates of deposit	—	99,991	390,267	177,378	—	—	—	667,636	
Derivative financial instruments	—	3,131	17,943	27,942	142,985	56,655	—	248,656	
Loan capital	—	—	—	—	—	1,898,957	—	1,898,957	
Other financial liabilities	401,465	59,876	102,005	161,879	15,004	—	—	740,229	
Total financial liabilities	27,274,354	21,194,283	15,131,174	7,539,000	246,961	1,955,612	—	73,341,384	
Net position - total financial assets and liabilities	(19,212,691)	(6,339,523)	(4,615,104)	4,406,376	18,706,560	12,942,015	225,149	6,112,782	
Of which certificates of deposit included in:									
Held-to-maturity securities	—	225,243	2,110,648	1,357,430	—	—	—	3,693,321	
Of which debt securities included in:									
Financial assets at fair value through profit or loss									
- Designated at fair value	—	—	—	216,196	996,953	—	—	1,213,149	
Available-for-sale securities	—	—	—	—	2,625,897	1,367,643	—	3,993,540	
Held-to-maturity securities	—	1,225,799	2,576,757	2,538,779	2,519,363	739,322	—	9,600,020	
	—	1,225,799	2,576,757	2,754,975	6,142,213	2,106,965	—	14,806,709	

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	THE GROUP							Undated HK\$'000	Total HK\$'000
	Repayable within 1 month (except those Repayable on demand HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Repayable after 5 years HK\$'000	Repayable after 5 years HK\$'000		
	Repayable within 1 month (except those Repayable on demand HK\$'000	Repayable after 1 month but within 3 months HK\$'000	Repayable after 3 months but within 1 year HK\$'000	Repayable after 1 year but within 5 years HK\$'000	Repayable after 5 years HK\$'000	Repayable after 5 years HK\$'000	Repayable after 5 years HK\$'000		
At 31 December 2011									
Assets									
Cash and short-term funds	6,470,760	11,849,802	338,714	—	—	—	—	—	18,659,276
Placements with banks and other financial institutions	—	—	1,596,870	572,137	—	—	—	—	2,169,007
Derivative financial instruments	—	2,603	3,985	3,719	281	118,968	—	—	129,556
Financial assets at fair value through profit or loss	—	—	185,947	371,556	1,287,779	—	307	—	1,845,589
Available-for-sale securities	—	—	—	—	1,258,736	380,910	206,839	—	1,846,485
Held-to-maturity securities	—	1,490,948	193,197	3,597,047	2,764,008	242,882	—	—	8,288,082
Advances to customers	1,767,331	2,856,018	3,991,951	6,718,317	14,051,611	11,766,665	186,591	—	41,338,484
Advances to banks and other financial institutions	—	—	745,720	759,689	—	—	—	—	1,505,409
Other financial assets	238,966	132,095	69,612	158,736	667	—	(196,013)	—	404,063
Total financial assets	8,477,057	16,331,466	7,125,996	12,181,201	19,363,082	12,509,425	197,724	—	76,185,951
Liabilities									
Deposits and balances of banks and other financial institutions	18,820	998,016	70,000	—	—	—	—	—	1,086,836
Financial assets sold under repurchase agreements	—	—	137,940	282,712	—	—	—	—	420,652
Deposits from customers	22,875,493	24,488,399	12,247,213	4,489,832	714,776	—	—	—	64,815,713
Certificates of deposit	—	99,948	79,844	1,265,770	100,000	—	—	—	1,545,562
Derivative financial instruments	—	4,097	27,364	25,606	184,459	24,170	—	—	265,696
Loan capital	—	—	—	—	—	1,852,153	—	—	1,852,153
Other financial liabilities	339,419	56,814	62,330	75,793	24,139	—	—	—	558,495
Total financial liabilities	23,233,732	25,647,274	12,624,691	6,139,713	1,023,374	1,876,323	—	—	70,545,107
Net position - total financial assets and liabilities	(14,756,675)	(9,315,808)	(5,498,695)	6,041,488	18,339,708	10,633,102	197,724	—	5,640,844
Of which certificates of deposit included in:									
Held-to-maturity securities	—	879,341	12,340	661,043	18,520	—	—	—	1,571,244
Of which debt securities included in:									
Financial assets at fair value through profit or loss	—	—	185,947	371,556	1,287,779	—	—	—	1,845,282
- Designated at fair value	—	—	—	—	1,258,736	380,910	—	—	1,639,646
Available-for-sale securities	—	1,490,948	193,197	3,597,047	2,764,008	242,882	—	—	8,288,082
Held-to-maturity securities	—	1,490,948	379,144	3,968,603	5,310,523	623,792	—	—	11,773,010

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	THE BANK							Undated HK\$'000	Total HK\$'000
	Repayable within 1 month (except those Repayable on demand)		Repayable after 1 month but within 3 months	Repayable after 3 months but within 1 year	Repayable after 1 year but within 5 years	Repayable after 5 years			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 31 December 2012									
Assets									
Cash and short-term funds	6,089,167	11,103,776	30,000	98,531	—	—	—	17,321,474	
Placements with banks and other financial institutions	—	—	3,946,248	829,468	—	—	—	4,775,716	
Derivative financial instruments	—	6,562	3,987	6,106	—	171,256	—	187,911	
Financial assets at fair value through profit or loss	—	—	—	216,196	996,953	—	—	1,213,149	
Available-for-sale securities	—	—	—	—	2,625,897	1,367,643	136,550	4,130,090	
Held-to-maturity securities	—	1,225,799	2,576,757	2,538,779	2,519,363	739,322	—	9,600,020	
Advances to customers	1,634,953	2,284,996	2,398,222	7,369,363	12,717,092	12,619,406	168,157	39,192,189	
Advances to banks and other financial institutions	—	105,497	1,364,831	694,514	—	—	—	2,164,842	
Other financial assets	134,026	125,784	192,183	180,312	94,216	224,579	(174,176)	776,924	
Total financial assets	7,858,146	14,852,414	10,512,228	11,933,269	18,953,521	15,122,206	130,531	79,362,315	
Liabilities									
Deposits and balances of banks and other financial institutions	35,287	803,806	659,900	344,484	—	—	—	1,843,477	
Financial assets sold under repurchase agreements	—	354,801	—	78,880	—	—	—	433,681	
Deposits from customers	26,837,602	19,872,678	13,961,059	6,748,437	88,972	—	—	67,508,748	
Certificates of deposit	—	99,991	390,267	177,378	—	—	—	667,636	
Derivative financial instruments	—	3,131	17,943	27,942	142,985	56,655	—	248,656	
Loan capital	—	—	—	—	—	1,898,957	—	1,898,957	
Other financial liabilities	451,440	559,577	150,577	186,590	97	—	—	1,348,281	
Total financial liabilities	27,324,329	21,693,984	15,179,746	7,563,711	232,054	1,955,612	—	73,949,436	
Net position - total financial assets and liabilities	(19,466,183)	(6,841,570)	(4,667,518)	4,369,558	18,721,467	13,166,594	130,531	5,412,879	
Of which certificates of deposit included in:									
Held-to-maturity securities	—	225,243	2,110,648	1,357,430	—	—	—	3,693,321	
Of which debt securities included in:									
Financial assets at fair value through profit or loss									
- Designated at fair value	—	—	—	216,196	996,953	—	—	1,213,149	
Available-for-sale securities	—	—	—	—	2,625,897	1,367,643	—	3,993,540	
Held-to-maturity securities	—	1,225,799	2,576,757	2,538,779	2,519,363	739,322	—	9,600,020	
	—	1,225,799	2,576,757	2,754,975	6,142,213	2,106,965	—	14,806,709	

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	THE BANK							Undated HK\$'000	Total HK\$'000
	Repayable within 1 month (except those Repayable on demand)		Repayable after 1 month but within 3 months	Repayable after 3 months but within 1 year	Repayable after 1 year but within 5 years	Repayable after 5 years			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 31 December 2011									
Assets									
Cash and short-term funds	6,460,213	11,849,802	338,714	—	—	—	—	—	18,648,729
Placements with banks and other financial institutions	—	—	1,585,940	548,879	—	—	—	—	2,134,819
Derivative financial instruments	—	2,603	3,985	3,719	281	118,968	—	—	129,556
Financial assets at fair value through profit or loss	—	—	185,947	371,556	1,287,779	—	—	—	1,845,282
Available-for-sale securities	—	—	—	—	1,258,736	380,910	126,154	—	1,765,800
Held-to-maturity securities	—	1,490,948	193,197	3,597,047	2,764,008	242,882	—	—	8,288,082
Advances to customers	1,767,331	2,856,018	3,991,951	6,718,317	14,051,611	11,766,665	186,591	—	41,338,484
Advances to banks and other financial institutions	—	—	745,720	759,689	—	—	—	—	1,505,409
Other financial assets	129,496	129,916	68,060	157,486	667	229,581	(198,173)	—	517,033
Total financial assets	8,357,040	16,329,287	7,113,514	12,156,693	19,363,082	12,739,006	114,572	—	76,173,194
Liabilities									
Deposits and balances of banks and other financial institutions	18,820	998,016	70,000	—	—	—	—	—	1,086,836
Financial assets sold under repurchase agreements	—	—	137,940	282,712	—	—	—	—	420,652
Deposits from customers	22,875,362	24,488,399	12,247,213	4,489,832	714,776	—	—	—	64,815,582
Certificates of deposit	—	99,948	79,844	1,265,770	100,000	—	—	—	1,545,562
Derivative financial instruments	—	4,097	27,364	25,606	184,459	24,170	—	—	265,696
Loan capital	—	—	—	—	—	1,852,153	—	—	1,852,153
Other financial liabilities	496,177	553,364	110,741	58,514	2,538	—	—	—	1,221,334
Total financial liabilities	23,390,359	26,143,824	12,673,102	6,122,434	1,001,773	1,876,323	—	—	71,207,815
Net position - total financial assets and liabilities	(15,033,319)	(9,814,537)	(5,559,588)	6,034,259	18,361,309	10,862,683	114,572	—	4,965,379
Of which certificates of deposit included in:									
Held-to-maturity securities	—	879,341	12,340	661,043	18,520	—	—	—	1,571,244
Of which debt securities included in:									
Financial assets at fair value through profit or loss									
- Designated at fair value	—	—	185,947	371,556	1,287,779	—	—	—	1,845,282
Available-for-sale securities	—	—	—	—	1,258,736	380,910	—	—	1,639,646
Held-to-maturity securities	—	1,490,948	193,197	3,597,047	2,764,008	242,882	—	—	8,288,082
	—	1,490,948	379,144	3,968,603	5,310,523	623,792	—	—	11,773,010

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 consolidated financial statements approximate their fair values.

	THE GROUP AND THE BANK			
	Carrying value		Fair value	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial assets				
- Held-to-maturity securities	<u>9,600,020</u>	<u>8,288,082</u>	<u>9,634,003</u>	<u>8,279,329</u>
Financial liabilities				
- Loan capital	<u>1,898,957</u>	<u>1,852,153</u>	<u>1,927,742</u>	<u>1,715,830</u>

The fair value of listed securities is determined with reference to quoted market bid price from relevant stock exchange.

The fair values of convertible bonds and structured products designated as financial assets at fair value through profit or loss, debt securities classified as available-for-sale securities, held-to-maturity securities and loan capital are calculated based on indicative prices provided by pricing service provider, dealers, brokers and other service providers. Valuation models are used to substantiate the fair value of the debt securities. Inputs to valuation models are determined from observable market data, wherever possible.

The fair value of derivative financial instruments is calculated using quoted prices. Where such prices are not available, the derivatives are measured using quoted forward exchange rates or the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates, as appropriate.

The fair value of other financial assets and financial liabilities (excluding derivative financial instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Fair value measurements recognised in the statements of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	THE GROUP			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2012				
Financial assets held for trading	261	—	—	261
Financial assets designated at fair value through profit or loss	—	794,048	419,101	1,213,149
Available-for-sale securities	193,067	3,990,868	2,711	4,186,646
Derivative financial assets not used for hedging	—	21,146	—	21,146
Derivative financial assets used for hedging	—	166,765	—	166,765
Derivative financial liabilities not used for hedging	—	(118,154)	—	(118,154)
Derivative financial liabilities used for hedging	—	(130,502)	—	(130,502)
Total	<u>193,328</u>	<u>4,724,171</u>	<u>421,812</u>	<u>5,339,311</u>

	THE BANK			
	Fair value hierarchy			
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2012				
Financial assets designated at fair value through profit or loss	—	794,048	419,101	1,213,149
Available-for-sale securities	104,908	3,990,868	2,711	4,098,487
Derivative financial assets not used for hedging	—	21,146	—	21,146
Derivative financial assets used for hedging	—	166,765	—	166,765
Derivative financial liabilities not used for hedging	—	(118,154)	—	(118,154)
Derivative financial liabilities used for hedging	—	(130,502)	—	(130,502)
Total	<u>104,908</u>	<u>4,724,171</u>	<u>421,812</u>	<u>5,250,891</u>

	THE GROUP			
	Fair value hierarchy			
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2011				
Financial assets held for trading	307	—	—	307
Financial assets designated at fair value through profit or loss	—	1,427,635	417,647	1,845,282
Available-for-sale securities	173,786	1,638,649	1,076	1,813,511
Derivative financial assets not used for hedging	—	13,501	—	13,501
Derivative financial assets used for hedging	—	116,055	—	116,055
Derivative financial liabilities not used for hedging	—	(203,110)	—	(203,110)
Derivative financial liabilities used for hedging	—	(62,586)	—	(62,586)
Total	<u>174,093</u>	<u>2,930,144</u>	<u>418,723</u>	<u>3,522,960</u>

	THE BANK			
	Fair value hierarchy			
	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2011				
Financial assets designated at fair value through profit or loss	—	1,427,635	417,647	1,845,282
Available-for-sale securities	97,069	1,638,649	1,076	1,736,794
Derivative financial assets not used for hedging	—	13,501	—	13,501
Derivative financial assets used for hedging	—	116,055	—	116,055
Derivative financial liabilities not used for hedging	—	(203,110)	—	(203,110)
Derivative financial liabilities used for hedging	—	(62,586)	—	(62,586)
Total	<u>97,069</u>	<u>2,930,144</u>	<u>418,723</u>	<u>3,445,936</u>

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

Reconciliation of Level 3 fair value measurements of financial assets

	THE GROUP AND THE BANK		
	Financial assets designated at fair value through profit or loss HK\$'000	Available- for-sale securities HK\$'000	Total HK\$'000
Balance at 1 January 2011	305,385	41,328	346,713
Total net losses recognised in consolidated income statement	(42,430)	—	(42,430)
Total net losses recognised in the revaluation reserve	—	(1,670)	(1,670)
Purchases	155,336	—	155,336
Matured/disposals	—	(38,582)	(38,582)
Foreign exchange rate movements	(644)	—	(644)
Balance at 31 December 2011	<u>417,647</u>	<u>1,076</u>	<u>418,723</u>
Total net gains recognised in consolidated income statement	47,759	—	47,759
Total net gains recognised in the revaluation reserve	—	1,635	1,635
Purchases	—	—	—
Matured/disposals	(45,506)	—	(45,506)
Foreign exchange rate movements	(799)	—	(799)
Balance at 31 December 2012	<u><u>419,101</u></u>	<u><u>2,711</u></u>	<u><u>421,812</u></u>

The majority of the Group's investments are valued based on quoted market information or observable market data. A small percentage, 0.5% (2011: 0.5%), of total assets recorded at fair value, are based on estimates and recorded as Level 3 investments. Whilst such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions would not have a big impact on the Group's and Bank's financial positions.

Of the total net gains or losses for the year included in consolidated income statement, HK\$47,759,000 gains (2011: HK\$42,430,000 losses) are related to these investments held at the end of the reporting period. Fair value gains or losses of these investments are included in net gains on financial instruments at fair value through profit or loss.

Of the total net gains or losses for the year included in other comprehensive income, an amount of HK\$1,635,000 gains (2011: HK\$1,670,000 losses) relate to available-for-sale securities held at the end of the reporting period.

8. NET INTEREST INCOME

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income		
Balances and placements with banks and other financial institutions	317,724	281,526
Investments in securities	293,085	260,547
Loans and advances	890,160	797,409
Interest rate swaps	62,851	30,507
	<u>1,563,820</u>	<u>1,369,989</u>
Interest expense		
Deposits and balances from banks and customers	(588,238)	(449,237)
Financial assets sold under repurchase agreements	(4,640)	(4,084)
Certificates of deposit	(31,417)	(7,126)
Loan capital in issue	(66,910)	(73,635)
Interest rate swaps	(35,707)	(20,586)
	<u>(726,912)</u>	<u>(554,668)</u>
Net interest income	<u>836,908</u>	<u>815,321</u>
Included within interest income		
Interest income on impaired loans and advances	<u>374</u>	<u>1,214</u>

Included within interest income and interest expense are HK\$1,484,940,000 (2011: HK\$1,297,997,000) and HK\$691,205,000 (2011: HK\$534,082,000) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in securities of HK\$293,085,000 (2011: HK\$260,547,000).

9. NET FEE AND COMMISSION INCOME

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fee and commission income		
Securities dealings	116,755	152,105
Credit lines	15,090	13,364
Trade finance	12,067	11,381
Credit card services	68,880	63,620
Agency services	25,085	22,262
Others	16,072	13,525
Total fee and commission income	253,949	276,257
Less: Fee and commission expense	(64,584)	(58,534)
Net fee and commission income	<u>189,365</u>	<u>217,723</u>
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
- fee income	104,855	96,043
- fee expenses	(62,511)	(57,547)
	<u>42,344</u>	<u>38,496</u>

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

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net gains (losses) on financial instruments at fair value through profit or loss		
- designated at fair value through profit or loss (<i>Note 1</i>)	(28,721)	(47,833)
- held for trading (<i>Note 2</i>)	86,194	(54,585)
	<u>57,473</u>	<u>(102,418)</u>
Net gains (losses) on fair value hedge		
- net losses on hedged items attributable to the hedged risk	(23,068)	(175,030)
- net gains on hedging instruments	24,268	154,351
	<u>1,200</u>	<u>(20,679)</u>

Note 1: The net gains (losses) on financial instruments designated at fair value through profit or loss in both years were primarily attributable to the changes in credit risk of the structured products and the convertible bonds.

Note 2: The net gains (losses) mainly related to interest rate swaps held for trading and cross-currency interest rate swap held for trading. Details of the outstanding contracts as at 31 December 2012 and 2011 are set out in note 18.

11. OTHER OPERATION INCOME

	2012	2011
	HK\$'000	HK\$'000
Dividend income		
- Listed investments	6,214	6,128
- Unlisted investments	4,585	3,692
Net exchange gains and net gains from foreign currency contracts	108,228	54,168
Gross rents from investment properties	16,447	14,424
Less: Outgoings	(1,206)	(1,133)
Net rental income	15,241	13,291
Safe deposit box rentals	36,136	32,181
Insurance underwriting premium less claims and commission expense	18,100	11,372
Other banking services income	45,117	44,154
Recovery of amounts previously written-off in relation to Minibonds Repurchase Scheme (<i>Note</i>)	—	234,632
Others	4,214	5,237
	<u>237,835</u>	<u>404,855</u>

Note: The Bank announced on 28 March 2011 that it has entered into an agreement (“Agreement”) with the Lehman Brothers, the trustee and the receiver for the Lehman Brother s Minibonds (“Minibonds”), and fifteen other distributing banks in relation to the recovery of the Minibonds’ underlying collateral (“Collateral”). Pursuant to the Agreement, the Bank received recoveries of amounts previously written-off in the years 2009 and 2010 (included in “Expenses relating to Minibonds Repurchase Scheme” in the consolidated financial statements for the years 2009 and 2010) from the Collateral during the period, net of ex-gratia payments to customers who held the Minibonds, amounting to HK\$234,632,000.

12. OPERATING EXPENSES

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditor's remuneration		
Staff costs (including directors' emoluments)	4,304	4,141
- Salaries and other costs	423,522	401,432
- Retirement benefits scheme contributions	30,846	28,672
Total staff costs	454,368	430,104
Depreciation	59,209	54,742
Release of prepaid lease payments for land	66	66
Premises and equipment expenses, excluding depreciation/ release of prepaid lease payments for land:		
- Rentals and rates for premises	44,030	47,540
- Others	26,367	21,085
Other operating expenses	200,247	215,877
	<u>788,591</u>	<u>773,555</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$37,220,000 (2011: HK\$41,243,000).

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the directors and the chief executive of the Bank were as follows:

	2012					2011				
	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary bouns HK\$'000 (Note 2)	Contribution to retirement benefits scheme HK\$'000	Total HK\$'000	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary bouns HK\$'000 (Note 2)	Contribution to retirement benefits scheme HK\$'000	Total HK\$'000
Executive Directors and Chief Executive										
Liu Lit Mo	250	454	34	41	779	250	433	34	41	758
Liu Lit Chi (Note 1)	150	7,515	280	318	8,263	150	6,076	220	255	6,701
Lau Wai Man	150	2,328	195	231	2,904	150	2,205	185	219	2,759
Don Tit Shing Liu	150	4,337	329	395	5,211	150	4,990	329	392	5,861
Wilfred Chun Ning Liu	150	2,047	135	161	2,493	150	2,132	130	154	2,566
Tsang Chiu Wing (resigned as Executive Director on 31 December 2012)	150	2,186	182	215	2,733	150	2,059	172	203	2,584
Wong Har Kar (resigned as Executive Director on 31 December 2012)	150	2,130	180	205	2,665	150	1,994	170	182	2,496
Total Executive Directors' and Chief Executive's emoluments	1,150	20,997	1,335	1,566	25,048	1,150	19,889	1,240	1,446	23,725
Non-executive Directors										
He Jiale (appointed as Non-executive Director on 22 May 2012)	104	—	—	—	104	—	—	—	—	—
Andrew Liu (resigned as Non-executive Director on 31 December 2012)	170	23	—	—	193	150	27	—	—	177
Hidekazu Horikoshi (appointed as Non-executive Director on 8 August 2012)	68	—	—	—	68	—	—	—	—	—
Christopher Kwun Shing Liu	170	—	—	—	170	150	—	—	—	150
Alfred Cheuk Yu Chow	250	—	—	—	250	200	—	—	—	200
Meng Qinghui	170	—	—	—	170	150	—	—	—	150
Wang Xiaoming (resigned as Non-executive Director on 22 May 2012)	66	—	—	—	66	150	—	—	—	150
Hidemitsu Otsuka (resigned as Non-executive Director on 8 August 2012)	102	—	—	—	102	150	—	—	—	150
Total Non-executive Directors' emoluments	1,100	23	—	—	1,123	950	27	—	—	977
Independent Non-executive Directors										
Robin Yau Hing Chan	250	—	—	—	250	200	—	—	—	200
Timothy George Freshwater (redesignated as Independent Non-executive Director on 8 August 2012)	250	80	—	—	330	200	80	—	—	280
Wanchai Chiranakhorn	250	—	—	—	250	200	—	—	—	200
Cheng Yuk Wo	250	—	—	—	250	200	—	—	—	200
Andrew Chiu Cheung Ma	250	—	—	—	250	200	—	—	—	200
Total Independent Non-executive Directors' emoluments	1,250	80	—	—	1,330	1,000	80	—	—	1,080
Total	3,500	21,100	1,335	1,566	27,501	3,100	19,996	1,240	1,446	25,782

Note 1: Being the Bank's Managing Director and Chief Executive Officer.

Note 2: The discretionary bonus is determined by reference to the individual performance of the directors and approved by the Remuneration Committee.

The five highest paid individuals in the Group in 2012 and 2011 were all directors of the Bank and details of their emoluments are included above. No directors nor the chief executive waived any emoluments in the years ended 31 December 2012 and 31 December 2011.

14. TAXATION

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
The tax charge comprises:		
Hong Kong Profits Tax		
- Current year	84,641	99,708
- Over provision in prior years	(229)	(299)
	<u>84,412</u>	<u>99,409</u>
Overseas taxation		
- Current year	16,815	17,983
- Over provision in prior years	(402)	(418)
Deferred tax (<i>Note 33</i>)	<u>2,220</u>	<u>(10,038)</u>
	<u><u>103,045</u></u>	<u><u>106,936</u></u>

Hong Kong Profits Tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profit for the year.

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

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

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	<u>646,385</u>	<u>667,652</u>
Tax at the domestic income tax rate of 16.5% (2011: 16.5%)	106,654	110,163
Tax effect of share of profits of associates	(5,945)	(2,979)
Tax effect of expenses not deductible for tax purpose	64	3,610
Tax effect of income not taxable for tax purpose	(4,881)	(3,933)
Over provision in prior years	(631)	(717)
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	5,350	1,630
Others	<u>2,434</u>	<u>(838)</u>
Tax charge for the year	<u><u>103,045</u></u>	<u><u>106,936</u></u>

15. DIVIDENDS

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the year:		
2012 Interim - HK\$0.11 (2011: 2011 Interim - HK\$0.15) per share	47,850	65,250
2011 Final - HK\$0.35 (2011: 2010 Final - HK\$0.35) per share	<u>152,250</u>	<u>152,250</u>
	<u>200,100</u>	<u>217,500</u>

The final dividend of HK\$0.35 per share, totalling HK\$152,250,000, in respect of the current financial year (2011: HK\$0.35 per share, totalling HK\$152,250,000) has been proposed by the directors and is subject to approval by the shareholders in the next annual general meeting.

16. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$543,340,000 (2011: HK\$560,716,000) and on 435,000,000 (2011: 435,000,000) ordinary shares in issue during the year.

No dilution earnings per share is presented as no potential ordinary shares were in issue for the year ended 31 December 2012 (2011: nil).

17. CASH AND SHORT - TERM FUNDS

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and balances with banks and other financial institutions	6,060,810	6,393,092	6,050,407	6,382,545
Money at call and short notice	10,472,554	8,717,815	10,472,554	8,717,815
Exchange fund bills	<u>798,513</u>	<u>3,548,369</u>	<u>798,513</u>	<u>3,548,369</u>
	<u>17,331,877</u>	<u>18,659,276</u>	<u>17,321,474</u>	<u>18,648,729</u>

18. DERIVATIVE FINANCIAL INSTRUMENTS

	THE GROUP AND THE BANK					
	2012			2011		
	Notional amount HK\$'000	Fair values		Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading						
- Foreign currency forward contracts	6,037,758	16,584	21,380	1,318,444	8,181	5,783
- Interest rate swaps	796,280	4,562	95,192	1,359,407	5,320	190,608
- Cross-currency interest rate swap	36,040	—	1,582	40,360	—	6,719
Derivatives designated as hedging instruments						
- Interest rate swaps	5,286,864	166,765	120,792	3,161,088	116,055	51,907
- Cross-currency interest rate swaps	233,306	—	9,710	233,306	—	10,679
		<u>187,911</u>	<u>248,656</u>		<u>129,556</u>	<u>265,696</u>

The currencies of foreign currency forward buy contracts as at 31 December 2012 mainly comprise Hong Kong dollars and Australian dollars (2011: Hong Kong dollars, Renminbi and Australian dollars), and the currencies in the forward sale contracts mainly comprise Renminbi and United States dollars (2011: Renminbi and United States dollars). As at 31 December 2012 and 2011, all of these contracts have a settlement date within one year from the end of the reporting period.

The remaining maturity of interest rate swaps and cross-currency interest rate swap held for trading ranged from 1 to 8 years (2011: 1 to 9 years).

Of the interest rate swaps held for trading with a notional amount of HK\$796,280,000 (2011: HK\$1,359,407,000) as at 31 December 2012 and 2011, the notional amount of HK\$60,000,000 (2011: HK\$60,000,000) was floating-to-fixed rate swaps, the remaining notional amount of HK\$736,280,000 (2011: HK\$1,299,407,000) was fixed-to-floating rate swaps.

The cross-currency interest rate swap held for trading as at 31 December 2012 and 2011 was a floating-to-floating rate swap paying Japanese yen receiving United States dollars.

The replacement costs and credit risk weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	THE GROUP AND THE BANK					
	2012			2011		
	Notional amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>	Notional amount <i>HK\$'000</i>	Replacement cost <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>
Exchange rate contracts	6,307,104	16,584	22,865	1,592,110	8,181	14,662
Interest rate contracts	6,083,144	<u>171,327</u>	<u>53,978</u>	4,520,495	<u>121,375</u>	<u>38,601</u>
		<u>187,911</u>	<u>76,843</u>		<u>129,556</u>	<u>53,263</u>

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

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the statements of financial position at fair value.

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

Fair value hedge of fixed-rate bonds

The Group designates certain interest rate swaps and cross-currency interest rate swaps as fair value hedges of the fair value of available-for-sale debt securities with carrying amounts of HK\$3,990,868,000 (2011: HK\$1,638,649,000) as at 31 December 2012. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and cross-currency interest rate swaps and the corresponding fixed-rate bonds have the same terms and management of the Group considers that the interest rate swaps and cross-currency interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps, cross-currency interest rate swaps and debt securities ranged from 2 to 10 years.

During the years ended 31 December 2012 and 2011, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the gains in fair value of the bonds of HK\$25,349,000 (2011: gains of HK\$59,347,000) and losses in fair value of the interest rate swaps of HK\$25,759,000 (2011: losses of HK\$50,107,000) and gains in fair value of cross-currency interest rate swaps of HK\$478,000 (2011: losses of HK\$8,354,000) were included in the consolidated income statement.

Fair value hedge of subordinated note issued

The Group designates an interest rate swap as fair value hedge of the fair value change of the interest rate movement of the US\$225 million subordinated note issued (see note 30 for details). The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rates to floating rates. The interest rate swap and the hedged subordinated note have the same terms and management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the increase in fair value of the note of HK\$48,417,000 (2011: increase in fair value of HK\$234,377,000) and gains in fair value of the interest rate swap of HK\$49,549,000 (2011: gains of HK\$212,812,000) were included in the consolidated income statement.

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	Designated at fair value	Available- for-sale securities	Held-to- maturity securities	Total	Held for trading	Designated at fair value	Available- for-sale securities	Held-to- maturity securities	Total
2012										
Equity securities:										
Listed in Hong Kong	261	—	184,012	—	184,273	—	—	95,853	—	95,853
Listed overseas	—	—	9,055	—	9,055	—	—	9,055	—	9,055
	261	—	193,067	—	193,328	—	—	104,908	—	104,908
Unlisted	—	—	35,610	—	35,610	—	—	31,642	—	31,642
	261	—	228,677	—	228,938	—	—	136,550	—	136,550
Debt securities:										
Certificates of deposit	—	—	—	3,693,321	3,693,321	—	—	—	3,693,321	3,693,321
Structured products	—	419,101	—	—	419,101	—	419,101	—	—	419,101
Convertible bonds	—	794,048	—	—	794,048	—	794,048	—	—	794,048
Other debt securities										
- Unlisted	—	—	3,993,540	5,906,699	9,900,239	—	—	3,993,540	5,906,699	9,900,239
	—	1,213,149	3,993,540	9,600,020	14,806,709	—	1,213,149	3,993,540	9,600,020	14,806,709
Total:										
Listed in Hong Kong	261	—	184,012	—	184,273	—	—	95,853	—	95,853
Listed overseas	—	—	9,055	—	9,055	—	—	9,055	—	9,055
Unlisted	—	1,213,149	4,029,150	9,600,020	14,842,319	—	1,213,149	4,025,182	9,600,020	14,838,351
	261	1,213,149	4,222,217	9,600,020	15,035,647	—	1,213,149	4,130,090	9,600,020	14,943,259
Market value of listed securities:										
Listed in Hong Kong	261	—	184,012	—	184,273	—	—	95,853	—	95,853
Listed overseas	—	—	9,055	—	9,055	—	—	9,055	—	9,055
	261	—	193,067	—	193,328	—	—	104,908	—	104,908
As analysed by issuing entities:										
Central government and central banks	—	—	—	3,382	3,382	—	—	—	3,382	3,382
Public sector entities	—	—	56,016	196,401	252,417	—	—	56,016	196,401	252,417
Banks and other financial institutions	43	419,101	353,885	7,809,345	8,582,374	—	419,101	325,618	7,809,345	8,554,064
Corporate entities	218	794,048	3,807,796	1,590,892	6,192,954	—	794,048	3,747,904	1,590,892	6,132,844
Others	—	—	4,520	—	4,520	—	—	552	—	552
	261	1,213,149	4,222,217	9,600,020	15,035,647	—	1,213,149	4,130,090	9,600,020	14,943,259

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	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	Designated at fair value	Available- for-sale securities	Held-to- maturity securities	Total	Held for trading	Designated at fair value	Available- for-sale securities	Held-to- maturity securities	Total
2011										
Equity securities:										
Listed in Hong Kong	307	—	166,834	—	167,141	—	—	90,117	—	90,117
Listed overseas	—	—	6,952	—	6,952	—	—	6,952	—	6,952
	307	—	173,786	—	174,093	—	—	97,069	—	97,069
Unlisted	—	—	33,053	—	33,053	—	—	29,085	—	29,085
	307	—	206,839	—	207,146	—	—	126,154	—	126,154
Debt securities:										
Certificates of deposit	—	—	—	1,571,244	1,571,244	—	—	—	1,571,244	1,571,244
Structured products	—	417,647	—	—	417,647	—	417,647	—	—	417,647
Convertible bonds	—	1,427,635	—	—	1,427,635	—	1,427,635	—	—	1,427,635
Other debt securities										
- Unlisted	—	—	1,639,646	6,716,838	8,356,484	—	—	1,639,646	6,716,838	8,356,484
	—	1,845,282	1,639,646	8,288,082	11,773,010	—	1,845,282	1,639,646	8,288,082	11,773,010
Total:										
Listed in Hong Kong	307	—	166,834	—	167,141	—	—	90,117	—	90,117
Listed overseas	—	—	6,952	—	6,952	—	—	6,952	—	6,952
Unlisted	—	1,845,282	1,672,699	8,288,082	11,806,063	—	1,845,282	1,668,731	8,288,082	11,802,095
	307	1,845,282	1,846,485	8,288,082	11,980,156	—	1,845,282	1,765,800	8,288,082	11,899,164
Market value of listed securities:										
Listed in Hong Kong	307	—	166,834	—	167,141	—	—	90,117	—	90,117
Listed overseas	—	—	6,952	—	6,952	—	—	6,952	—	6,952
	307	—	173,786	—	174,093	—	—	97,069	—	97,069
As analysed by issuing entities:										
Central government and central banks	—	—	—	130,797	130,797	—	—	—	130,797	130,797
Public sector entities	—	—	56,566	185,187	241,753	—	—	56,566	185,187	241,753
Banks and other financial institutions	58	417,647	255,574	6,823,243	7,496,522	—	417,647	234,048	6,823,243	7,474,938
Corporate entities	249	1,427,635	1,529,784	1,148,855	4,106,523	—	1,427,635	1,474,593	1,148,855	4,051,083
Others	—	—	4,561	—	4,561	—	—	593	—	593
	307	1,845,282	1,846,485	8,288,082	11,980,156	—	1,845,282	1,765,800	8,288,082	11,899,164

For the equity securities classified as available-for-sale financial instruments, impairment losses accumulated through the years of HK\$44,879,000 (2011: HK\$65,583,000) and HK\$16,012,000 (2011: HK\$36,262,000) have been provided by the Group and the Bank respectively.

Included in structured products are credit linked notes of HK\$419,101,000 (2011: HK\$372,141,000) and fund linked note of nil (2011: HK\$45,506,000). The credit linked notes held by the Group and the Bank bear three-month LIBOR with spreads ranging from 1.3% to 2.0% per annum and maturity dates ranging from 2015 to 2016. The note issuers are not obligated to repay the debt to the Group and the Bank if the reference entities (rated A1 or above by Moody's as at 31 December 2012 and 2011) default. The fund linked note held by the Group and the Bank bears zero coupon rate with a maturity in 2012. On its maturity date, the principal of the note is guaranteed by the issuer (rated A1 by Moody's as at 31 December 2011) and the return is linked with the performance of an index developed by the issuer.

Unlisted equity securities classified as available-for-sale held by the Group and the Bank amounting to HK\$35,571,000 (2011: HK\$32,974,000) and HK\$31,603,000 (2011: HK\$29,006,000) respectively are measured at cost less impairment. No impairment has been recognised.

Certain held-to-maturity certificates of deposit of HK\$17,054,000 (2011: HK\$15,534,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

Debt securities classified as held-to-maturity amounting to HK\$3,382,000 (2011: HK\$130,797,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of the People's Republic of China ("PRC").

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

The certificates of deposit classified as held-to-maturity securities held by the Group and the Bank are mainly issued by banks from the PRC, Japan and Hong Kong. Of the above, held-to-maturity certificates of deposit amounting to HK\$1,731,693,000 (2011: HK\$333,072,000) and held-to-maturity debt securities amounting to HK\$900,850,000 (2011: HK\$320,808,000) held by the Group and the Bank are credit exposures to the PRC.

20. TRANSFER OF FINANCIAL ASSETS

The following were the Group's and the Bank's debt securities classified as held-to-maturity and available-for-sale as at 31 December 2012 that were transferred to an entity with terms to repurchase these debt securities at the agreed dates and prices. As the Group has not transferred the significant risks and rewards relating to these debt securities to the entity, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 27). The transferred debt

securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the Group's consolidated statement of financial position.

	As at 31 December 2012		
	Available- for-sale debt securities	Held-to- maturity debt securities	Total
	HK\$'000	HK\$'000	HK\$'000
Carrying amount of transferred assets	393,490	117,621	511,111
Carrying amount of associated liabilities (Note 27)	<u>326,687</u>	<u>106,994</u>	<u>433,681</u>

21. ADVANCES AND OTHER ACCOUNTS

	THE GROUP		THE BANK	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Advances to customers				
Bills receivable	373,401	403,729	373,401	403,729
Trade bills	453,669	302,481	453,669	302,481
Other advances to customers	<u>38,365,119</u>	<u>40,632,274</u>	<u>38,365,119</u>	<u>40,632,274</u>
	39,192,189	41,338,484	39,192,189	41,338,484
Interest receivable	232,270	162,580	231,965	162,045
Impairment allowances				
- Individually assessed	(24,054)	(40,553)	(24,054)	(40,553)
- Collectively assessed	<u>(164,506)</u>	<u>(172,015)</u>	<u>(164,506)</u>	<u>(172,015)</u>
	39,235,899	41,288,496	39,235,594	41,287,961
Advances to banks and other financial institutions	<u>2,164,842</u>	<u>1,505,409</u>	<u>2,164,842</u>	<u>1,505,409</u>
	41,400,741	42,793,905	41,400,436	42,793,370
Other accounts	<u>708,477</u>	<u>454,051</u>	<u>485,143</u>	<u>336,665</u>
	<u>42,109,218</u>	<u>43,247,956</u>	<u>41,885,579</u>	<u>43,130,035</u>

Included in the "Other Accounts" of the Group and the Bank is an amount of approximately HK\$246,484,000 (2011: HK\$200,762,000) placed as reserve funds with the financial institutions in the PRC by the Shantou Branch of the Bank. Among which, HK\$64,861,000 (2011: HK\$88,493,000) and HK\$13,699,000 (2011: HK\$19,249,000) is the mandatory reserve deposits and surplus reserve

deposits placed with the People's Bank of China respectively. The mandatory reserve deposits are not available for the Group's daily operation; HK\$167,924,000 (2011: HK\$93,020,000) is the fixed deposits placed with other financial institutions in the PRC in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the PRC.

The remaining balance of "Other Accounts" of the Group amounting to HK\$461,993,000 (2011: HK\$253,289,000) mainly included account receivables from customers in relation to securities dealing of HK\$200,377,000 (2011: HK\$90,528,000) and a variation margin of HK\$94,479,000 (2011: HK\$1,952,000) deposited in a bank for certain interest rate swaps, foreign currency forward contracts and repurchase agreements.

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 1 January 2012	40,553	172,015	212,568	40,553	172,015	212,568
Reversal of impairment allowances (net)	(57,513)	(7,715)	(65,228)	(57,513)	(7,715)	(65,228)
- Increase in impairment allowances	6,214	—	6,214	6,214	—	6,214
- Amounts reversed	(63,727)	(7,715)	(71,442)	(63,727)	(7,715)	(71,442)
Amounts written off	(3,709)	—	(3,709)	(3,709)	—	(3,709)
Recoveries of advances written off in previous years	45,097	—	45,097	45,097	—	45,097
Unwinding effect of discount rate	(374)	—	(374)	(374)	—	(374)
Exchange difference	—	206	206	—	206	206
Balance 31 December 2012	<u>24,054</u>	<u>164,506</u>	<u>188,560</u>	<u>24,054</u>	<u>164,506</u>	<u>188,560</u>
Balance at 1 January 2011	21,564	125,089	146,653	21,564	125,089	146,653
Reversal of impairment allowances (net)	(154,050)	46,862	(107,188)	(154,050)	46,862	(107,188)
- Increase in impairment allowances	29,575	46,862	76,437	29,575	46,862	76,437
- Amounts reversed	(183,625)	—	(183,625)	(183,625)	—	(183,625)
Amounts written off	(1,847)	—	(1,847)	(1,847)	—	(1,847)
Recoveries of advances written off in previous years	176,100	—	176,100	176,100	—	176,100
Unwinding effect of discount rate	(1,214)	—	(1,214)	(1,214)	—	(1,214)
Exchange difference	—	64	64	—	64	64
Balance at 31 December 2011	<u>40,553</u>	<u>172,015</u>	<u>212,568</u>	<u>40,553</u>	<u>172,015</u>	<u>212,568</u>

Details of the impaired loans are as follows:

	THE GROUP AND THE BANK	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross impaired loans	24,194	78,189
Less: Impairment allowances under individual assessment	<u>(24,054)</u>	<u>(40,553)</u>
Net impaired loans	<u>140</u>	<u>37,636</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.06%</u>	<u>0.19%</u>
Market value of collateral pledged	<u>76,635</u>	<u>107,078</u>

22. INVESTMENTS IN SUBSIDIARIES/AMOUNTS DUE FROM SUBSIDIARIES

(i) Investments in subsidiaries

	THE BANK	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	<u>261,984</u>	<u>261,884</u>

Details of the principal subsidiaries as at 31 December 2012 and 2011 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
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
Top Benefit Enterprise Limited	Hong Kong	HK\$100,000	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
Hero Marker Limited ⁺	Hong Kong	HK\$100,000	100%	Property investment

⁺ The subsidiary was newly acquired on 19 January 2012 for consideration of HK\$1. Subsequent to the acquisition, the Bank injected HK\$99,999 to the Company.

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

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

(ii) **Amounts due from subsidiaries**

	THE BANK	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts due from subsidiaries	248,376	230,891

Included in the amounts due from subsidiaries are mortgage loans to subsidiaries of HK\$240,341,000 (2011: HK\$229,581,000). The loans are secured and bear interest at prevailing market interest rate with maturities ranging from November 2041 to March 2042.

As at 31 December 2012 and 31 December 2011, the remaining amounts due from subsidiaries are unsecured, non-interest bearing and, in the opinion of the directors, are repayable within three months.

23. INTERESTS IN ASSOCIATES

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	—	—	21,500	21,500
Share of post-acquisition profits and other comprehensive income net of dividends received	182,970	153,872	—	—
	<u>182,970</u>	<u>153,872</u>	<u>21,500</u>	<u>21,500</u>

The directors consider the Group and the Bank have significant influence over these entities.

As at 31 December 2012, the Group had interests in the following associates:

Name of company	Place of incorporation and operation	Class of share held	Ownership interest	Proportion of voting power	Nature of business
				(Note)	
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

Note: The Group is able to exercise significant influence over all of these entities because it has the power to appoint one or two directors out of five to eight directors of these companies under the provisions stated in the shareholder's agreements.

The summarised financial information below represent the aggregate amount of the Group's share of its interests in associates which are not individually material:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Other comprehensive income	430	(53)
Total comprehensive income	36,458	18,003
Profit after tax	<u>36,028</u>	<u>18,056</u>

There are no significant restrictions on the ability of the associates to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group, except for Hong Kong Life Insurance which has to maintain net assets of not less than 150% of the required margin of solvency which is determined in accordance with the Hong Kong Insurance Companies (Margin of Solvency) Regulations and which may trigger restrictions to fund transfer.

24. INVESTMENT PROPERTIES

	THE GROUP		THE BANK	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
At 1 January	127,171	116,400	94,100	86,450
Net increase in fair value recognised in the income statement	9,390	9,065	9,390	7,650
Disposals	(1,500)	—	(1,500)	—
Exchange adjustments	257	1,706	—	—
At 31 December	<u>135,318</u>	<u>127,171</u>	<u>101,990</u>	<u>94,100</u>

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

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

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Net gains on disposal of investment properties	2,816	—
Net gains on fair value adjustments on investment properties	<u>9,390</u>	<u>9,065</u>
	<u>12,206</u>	<u>9,065</u>

Investment properties owned by the Group were revalued at 31 December 2012 by adopting the direct comparison approach and with reference to the recent transactions for similar premises by Vigers Hong Kong Limited, independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

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

The investment properties are rented out under operating leases.

The carrying amount of investment properties of the Group comprises:

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold properties				
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	101,990	94,100	101,990	94,100
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	33,328	33,071	—	—
	<u>135,318</u>	<u>127,171</u>	<u>101,990</u>	<u>94,100</u>

25. PROPERTY AND EQUIPMENT

	THE GROUP				THE BANK			
	Leasehold	Buildings	Equipment	Total	Leasehold	Buildings	Equipment	Total
	land				land			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST								
At 1 January 2012	562,418	372,392	505,334	1,440,144	911,671	312,863	452,382	1,676,916
Additions	13,003	2,893	54,209	70,105	—	—	51,599	51,599
Disposals	—	—	(13,308)	(13,308)	—	—	(9,949)	(9,949)
Exchange adjustments	—	—	371	371	—	—	369	369
At 31 December 2012	<u>575,421</u>	<u>375,285</u>	<u>546,606</u>	<u>1,497,312</u>	<u>911,671</u>	<u>312,863</u>	<u>494,401</u>	<u>1,718,935</u>
ACCUMULATED DEPRECIATION								
At 1 January 2012	90,078	53,963	377,135	521,176	91,860	53,314	336,169	481,343
Depreciation	10,927	8,251	40,031	59,209	6,352	6,539	34,624	47,515
Eliminated on disposals	—	—	(11,441)	(11,441)	—	—	(8,694)	(8,694)
Exchange adjustments	—	—	(12)	(12)	—	—	(12)	(12)
At 31 December 2012	<u>101,005</u>	<u>62,214</u>	<u>405,713</u>	<u>568,932</u>	<u>98,212</u>	<u>59,853</u>	<u>362,087</u>	<u>520,152</u>
CARRYING AMOUNTS								
At 31 December 2012	<u>474,416</u>	<u>313,071</u>	<u>140,893</u>	<u>928,380</u>	<u>813,459</u>	<u>253,010</u>	<u>132,314</u>	<u>1,198,783</u>
COST								
At 1 January 2011	396,264	316,663	515,369	1,228,296	911,671	312,863	455,403	1,679,937
Additions	166,154	55,729	26,068	247,951	—	—	24,180	24,180
Disposals	—	—	(36,330)	(36,330)	—	—	(27,428)	(27,428)
Exchange adjustments	—	—	227	227	—	—	227	227
At 31 December 2011	<u>562,418</u>	<u>372,392</u>	<u>505,334</u>	<u>1,440,144</u>	<u>911,671</u>	<u>312,863</u>	<u>452,382</u>	<u>1,676,916</u>
ACCUMULATED DEPRECIATION								
At 1 January 2011	83,303	47,266	367,956	498,525	85,501	46,970	324,492	456,963
Depreciation	6,775	6,697	41,270	54,742	6,359	6,344	34,869	47,572
Eliminated on disposals	—	—	(32,202)	(32,202)	—	—	(23,303)	(23,303)
Exchange adjustments	—	—	111	111	—	—	111	111
At 31 December 2011	<u>90,078</u>	<u>53,963</u>	<u>377,135</u>	<u>521,176</u>	<u>91,860</u>	<u>53,314</u>	<u>336,169</u>	<u>481,343</u>
CARRYING AMOUNTS								
At 31 December 2011	<u>472,340</u>	<u>318,429</u>	<u>128,199</u>	<u>918,968</u>	<u>819,811</u>	<u>259,549</u>	<u>116,213</u>	<u>1,195,573</u>

APPENDIX II**FINANCIAL INFORMATION OF THE CHB GROUP**

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

Leasehold land	Over the lease term of the leasehold land ranging from 33 to 929 years
Buildings	Over the shorter of the lease term of the land upon which the buildings are situated ranging from 33 to 929 years or 2%
Equipment	10%-20%

The carrying amount of leased land shown above comprise:

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold land in Hong Kong:				
Held on long-term lease (over 50 years unexpired)	123,565	121,490	645,751	644,305
Held on medium-term lease (10 - 50 years unexpired)	349,912	347,400	166,769	172,056
Leasehold land outside Hong Kong:				
Held on medium-term lease (10 - 50 years unexpired)	939	3,450	939	3,450
	<u>474,416</u>	<u>472,340</u>	<u>813,459</u>	<u>819,811</u>

The carrying amounts of buildings shown above comprise:

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold properties (building)				
Held in Hong Kong on long-term lease (over 50 years unexpired)	193,771	198,308	193,771	198,308
Held in Hong Kong on medium-term lease (10-50 years unexpired)	112,480	113,144	52,419	54,264
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	6,820	6,977	6,820	6,977
	<u>313,071</u>	<u>318,429</u>	<u>253,010</u>	<u>259,549</u>

26. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	THE GROUP AND THE BANK	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
COST		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	<u>2,850</u>	<u>2,850</u>
Net book value at 1 January	2,483	2,535
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	<u>6</u>	<u>14</u>
Net book value at 31 December	<u>2,423</u>	<u>2,483</u>
Analysed as:		
Current portion	66	66
Non-current portion	<u>2,357</u>	<u>2,417</u>
Total	<u>2,423</u>	<u>2,483</u>

27. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	THE GROUP AND THE BANK	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	326,687	228,439
Held-to-maturity	<u>106,994</u>	<u>192,213</u>
	<u>433,681</u>	<u>420,652</u>

As at 31 December 2012, debt securities which are classified as available-for-sale and held-to-maturity with carrying amount of HK\$393,490,000 (2011: HK\$295,717,000) and HK\$117,621,000 (2011: HK\$240,883,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

28. DEPOSITS FROM CUSTOMERS

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Demand deposits and current accounts	5,238,918	4,501,674	5,238,918	4,501,674
Savings deposits	21,557,659	18,357,575	21,557,659	18,357,575
Time, call and notice deposits	40,712,171	41,956,464	40,712,171	41,956,333
	<u>67,508,748</u>	<u>64,815,713</u>	<u>67,508,748</u>	<u>64,815,582</u>

29. CERTIFICATES OF DEPOSIT

The Group and the Bank have issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$667,636,000 as at 31 December 2012 (2011: HK\$1,545,562,000). Included in certificates of deposit are certificates of deposit of HK\$100,000,000 issued at the rate of three-month HIBOR plus 1% which will mature in 2013 and certificates of deposit of HK\$567,636,000 issued at interest rate between 1.0% to 2.9% per annum which will mature in 2013. All certificates of deposit issued are not secured by any collateral.

30. LOAN CAPITAL

	THE GROUP AND THE BANK	
	2012	2011
	HK\$'000	HK\$'000
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (<i>Notes (a) & (b)</i>)	<u>1,898,957</u>	<u>1,852,153</u>

Notes:

- (a) This represented a subordinated note qualifying as tier 2 capital with face value of US\$225,000,000 issued on 5 November 2010. The note will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the note no longer fully qualifies as term subordinated debt for inclusion in Category II - Supplementary Capital of the Bank upon changes to regulatory requirements, the Bank may, at its option and subject to the prior written approval of the HKMA, exercise a change of the status of the note by serving the "Change in Status Notice" to the noteholders. Upon a "Change in Status Notice" becoming effective, the note shall thereafter constitute unsubordinated obligations and the rate of interest on the note shall be reduced from 6% per annum to 5.5% per annum. As the "Change in Status Notice" has not been served, the rate of interest on the note remains at 6% per annum.
- (b) The subordinated note issued is not secured by any collateral.

31. SHARE CAPITAL

2012 & 2011

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>

32. RESERVES

	Share premium	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE BANK							
At 1 January 2012 (as restated)	1,542,817	253	1,378,500	18,195	408,000	2,959,661	6,307,426
Profit for the year	—	—	—	—	—	497,823	497,823
Exchange differences arising from translation	—	—	—	4,331	—	—	4,331
Fair value gains on available-for-sale securities during the year	—	171,714	—	—	—	—	171,714
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	—	(468)	—	—	—	—	(468)
Income tax effect relating to disposal of available-for-sale securities	—	77	—	—	—	—	77
Income tax effect relating to fair value change of available-for-sale securities	—	(27,969)	—	—	—	—	(27,969)
Other comprehensive income	—	143,354	—	4,331	—	—	147,685
Total comprehensive income for the year	—	143,354	—	4,331	—	497,823	645,508
Interim dividend paid	—	—	—	—	—	(47,850)	(47,850)
Final dividend paid	—	—	—	—	—	(152,250)	(152,250)
Release of regulatory reserve to retained profits	—	—	—	—	(21,000)	21,000	—
At 31 December 2012	<u>1,542,817</u>	<u>143,607</u>	<u>1,378,500</u>	<u>22,526</u>	<u>387,000</u>	<u>3,278,384</u>	<u>6,752,834</u>

APPENDIX II
FINANCIAL INFORMATION OF THE CHB GROUP

	Share premium <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	General reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Regulatory reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE BANK							
At 1 January 2011 (as originally stated)	1,542,817	65,215	1,378,500	13,355	331,000	2,738,447	6,069,334
Effect of change in accounting policy (Note 2)	—	—	—	—	—	8,879	8,879
At 1 January 2011 (as restated)	1,542,817	65,215	1,378,500	13,355	331,000	2,747,326	6,078,213
Profit for the year	—	—	—	—	—	498,261	498,261
Exchange differences arising from translation	—	—	—	4,840	—	—	4,840
Fair value losses on available-for-sale securities during the year	—	(76,598)	—	—	—	—	(76,598)
Surplus on remeasurement of retirement benefits	—	—	—	—	—	10,268	10,268
Income tax effect relating to retirement benefits	—	—	—	—	—	(1,694)	(1,694)
Income tax effect relating to fair value change of available-for-sale securities	—	11,636	—	—	—	—	11,636
Other comprehensive income (expense)	—	(64,962)	—	4,840	—	8,574	(51,548)
Total comprehensive income (expense) for the year	—	(64,962)	—	4,840	—	506,835	446,713
Interim dividend paid	—	—	—	—	—	(65,250)	(65,250)
Final dividend paid	—	—	—	—	—	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve	—	—	—	—	77,000	(77,000)	—
At 31 December 2011 (as restated)	<u>1,542,817</u>	<u>253</u>	<u>1,378,500</u>	<u>18,195</u>	<u>408,000</u>	<u>2,959,661</u>	<u>6,307,426</u>

The Bank's reserves available for distribution to owners as at 31 December 2012 comprised retained profits of HK\$2,807,472,000 (2011: HK\$2,541,015,000) and general reserve of HK\$1,378,500,000 (2011: HK\$1,378,500,000).

The regulatory reserve is set up in compliance with the HKMA's requirements and is distributable to owners of the Bank subject to consultation with the HKMA.

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

33. DEFERRED TAXATION

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

	THE GROUP		
	2012	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>	<i>(Restated)</i>
Deferred tax assets	1,502	16,861	—
Deferred tax liabilities	<u>(23,574)</u>	<u>(6,897)</u>	<u>(11,478)</u>
	<u>(22,072)</u>	<u>9,964</u>	<u>(11,478)</u>
	THE BANK		
	2012	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>	<i>(Restated)</i>
Deferred tax assets	1,502	16,861	—
Deferred tax liabilities	<u>(15,129)</u>	<u>—</u>	<u>(3,318)</u>
	<u>(13,627)</u>	<u>16,861</u>	<u>(3,318)</u>

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

	Accelerated tax depreciation <i>HK\$'000</i>	Collectively assessed impairment allowance <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Revaluation of available-for-sale securities <i>HK\$'000</i>	Remeasurement of retirement benefits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
At 1 January 2012						
(as originally stated)	(10,540)	27,869	(13,014)	(2,797)	(1,694)	(176)
Effect of changes in accounting policy (<i>Note 2</i>)	—	—	10,140	—	—	10,140
At 1 January 2012 (as restated)	(10,540)	27,869	(2,874)	(2,797)	(1,694)	9,964
Charge to profit or loss for the year (<i>Note 14</i>)	(847)	(1,338)	(35)	—	—	(2,220)
Charge to other comprehensive income for the year	—	—	—	(29,816)	—	(29,816)
At 31 December 2012	<u>(11,387)</u>	<u>26,531</u>	<u>(2,909)</u>	<u>(32,613)</u>	<u>(1,694)</u>	<u>(22,072)</u>
At 1 January 2011						
(as originally stated)	(13,302)	20,031	(11,191)	(15,895)	—	(20,357)
Effect of changes in accounting policy (<i>Note 2</i>)	—	—	8,879	—	—	8,879
At 1 January 2011 (as restated)	(13,302)	20,031	(2,312)	(15,895)	—	(11,478)
Credit (charge) to profit for the year (<i>Note 14</i>)	2,762	7,838	(562)	—	—	10,038
Credit (charge) to other comprehensive income for the year	—	—	—	13,098	(1,694)	11,404
At 31 December 2011	<u>(10,540)</u>	<u>27,869</u>	<u>(2,874)</u>	<u>(2,797)</u>	<u>(1,694)</u>	<u>9,964</u>

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on profits distributed by the Bank's PRC branch from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC branch amounting to HK\$209,801,000 (2011: HK\$159,590,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

	Accelerated tax depreciation <i>HK\$'000</i>	Collectively assessed impairment allowance <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Revaluation of available-for-sale securities <i>HK\$'000</i>	Remeasurement of retirement benefits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE BANK						
At 1 January 2012						
(as originally stated)	(9,930)	27,869	(10,140)	616	(1,694)	6,721
Effect of changes in accounting policy (<i>Note 2</i>)	—	—	10,140	—	—	10,140
At 1 January 2012 (as restated)	(9,930)	27,869	—	616	(1,694)	16,861
Charge to profit for the year	(1,258)	(1,338)	—	—	—	(2,596)
Charge to other comprehensive income for the year	—	—	—	(27,892)	—	(27,892)
At 31 December 2012	<u>(11,188)</u>	<u>26,531</u>	<u>—</u>	<u>(27,276)</u>	<u>(1,694)</u>	<u>(13,627)</u>
At 1 January 2011						
(as originally stated)	(12,329)	20,031	(8,879)	(11,020)	—	(12,197)
Effect of changes in accounting policy (<i>Note 2</i>)	—	—	8,879	—	—	8,879
At 1 January 2011 (as restated)	(12,329)	20,031	—	(11,020)	—	(3,318)
Credit to profit for the year	2,399	7,838	—	—	—	10,237
Credit (charge) to other comprehensive income for the year	—	—	—	11,636	(1,694)	9,942
At 31 December 2011	<u>(9,930)</u>	<u>27,869</u>	<u>—</u>	<u>616</u>	<u>(1,694)</u>	<u>16,861</u>

34. SHARE OPTION SCHEME

The Bank has adopted a new share option scheme (the “New Scheme”) pursuant to a resolution passed on 9 May 2012 for the primary purpose of providing incentives to directors and eligible employees to replace the share option scheme which expired on 24 April 2012. The terms of the New Scheme are similar to those of the expired scheme. Under the New Scheme, the Board of Directors of the Bank may grant options to eligible persons, including directors and employees of the Bank and its subsidiaries, to subscribe for shares in the Bank.

The total number of shares in respect of which options may be granted under the New 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. No option may be granted to any person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the option already granted and to be granted to such person (including exercised, cancelled and outstanding options but excluding lapsed options) in the 12-month period up to and including the date of such new grant exceeding 1% of the shares in issue as at the date of such new grant, provided that options may be issued in excess of such limit if, among other things, such grant shall have been separately approved by shareholders of the Bank in a general meeting at which that proposed grantee and his associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) shall have abstained for voting.

Options granted must be taken up within 28 days of the date of offer, upon payment of HK\$10 per option, and the exercise period shall not in any event be longer than 10 years from the date of grant of the relevant options. 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 business days immediately preceding the date of offer and the nominal value of the shares.

No options have been granted under the New Scheme since it was adopted.

35. LOANS TO OFFICERS

The aggregate relevant loans to officers, included in "advances to customers" in Note 21, and disclosure pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	THE GROUP AND THE BANK		
	31 December 2012	31 December 2011	1 January 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Aggregate balance of all relevant loans outstanding at the end of the reporting period	<u>62,648</u>	<u>74,369</u>	<u>76,965</u>
		THE GROUP AND THE BANK	
		2012	2011
		<i>HK\$'000</i>	<i>HK\$'000</i>
Maximum aggregate balance of relevant loans during the year		<u>79,610</u>	<u>85,881</u>

The loans bear interest at rates ranging from 0% to prime rate plus 10%. Included in the loans to officers are loans of HK\$61,805,000 (2011: HK\$72,931,000) secured by collateral. These collaterals are mainly properties, securities and fixed deposits.

36. GOODWILL

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
COST		
At 1 January and 31 December	110,606	110,606
IMPAIRMENT		
At 1 January and 31 December	<u>60,000</u>	<u>60,000</u>
CARRYING VALUES		
At 31 December	<u><u>50,606</u></u>	<u><u>50,606</u></u>

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 2012, management has reviewed goodwill for impairment testing purpose. 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 three-year financial budgets approved by management of the subsidiary and estimated terminal value at the end of the three year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues (growth rate at 3.5% to 4%) and selection of discount rate (12%).

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

The management of the Group determines that there was no impairment loss on the goodwill for the year ended 31 December 2012 and 2011.

37. CONTINGENT LIABILITIES AND COMMITMENTS

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments				
- contractual amounts				
Direct credit substitutes	1,077,350	1,163,474	1,077,350	1,163,474
Trade-related contingencies	425,309	373,802	425,309	373,802
Forward asset purchases	7,864	8,550	7,864	8,550
Undrawn formal standby facilities, credit lines and other commitments:				
Which are unconditionally cancellable without prior notice	10,938,340	6,880,736	10,938,340	6,880,736
With an original maturity of one year and under	8,137,008	7,093,803	8,137,008	7,093,803
With an original maturity of over one year	2,420,887	2,210,112	2,420,887	2,210,112
Lease commitments	58,515	66,857	118,569	138,228
	<u>23,065,273</u>	<u>17,797,334</u>	<u>23,125,327</u>	<u>17,868,705</u>

The credit risk weighted amount of contingent liabilities and commitments is HK\$3,507,559,000 (2011: HK\$3,235,547,000).

The credit risk weighted amount is calculated based on “standardised approach”. The risk weights used in the computation of credit risk weighted amounts range from 0% to 100% (2011: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group and the Bank.

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

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

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	24,416	32,258	36,628	43,542
In the second to fifth years inclusive	33,627	33,998	81,469	82,844
Over five years	472	601	472	11,842
	<u>58,515</u>	<u>66,857</u>	<u>118,569</u>	<u>138,228</u>

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

Capital commitments outstanding at the end of the reporting period are as follows:

	THE GROUP AND THE BANK	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	<u>7,864</u>	<u>8,550</u>

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	THE GROUP		THE BANK	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	23,051	2,827	23,051	2,048
In the second to fifth years inclusive	<u>24,557</u>	<u>640</u>	<u>24,557</u>	<u>640</u>
	<u>47,608</u>	<u>3,467</u>	<u>47,608</u>	<u>2,688</u>

38. RETIREMENT BENEFITS SCHEME

At the end of the reporting period, the Group had two retirement schemes in operation including a defined contribution plan (the “ORSO Scheme”) and a defined benefit plan (the “ORSO (Defined benefit) Scheme”) which were both registered under the Occupational Retirement Scheme Ordinance 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 could stay within the ORSO Scheme or switch 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 2011 by the qualified actuaries of Towers Watson Hong Kong Limited. The actuarial valuation is carried out periodically, but at least triennially. No valuation is carried out as at 31 December 2012. The present value of the defined benefit obligation and the current service cost have been measured using the Projected Unit Credit method.

At the date of the latest formal independent actuarial valuation made on 31 December 2011, the net retirement asset of the ORSO (Defined benefit) Scheme was HK\$10,747,000.

	2011
	<i>HK\$'000</i>
Amounts recognised in profit or loss in respect of the defined benefit plans are as follow:	
Current service cost	(59)
Interest cost on benefit obligation	(610)
Interest income on plan assets	1,096
	<u>427</u>
Amount recognised in other comprehensive income in respect of the defined benefit plans is as follow:	
Difference between actual return on plan assets and interest, and actuarial losses	<u>10,268</u>

The amount included in the consolidated statement of financial position arising from the Group's defined benefit retirement benefit plan is as follows:

	2011
	<i>HK\$'000</i>
Present value of defined benefit obligation	(24,073)
Fair value of plan assets	34,820
	<u>10,747</u>

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

	2011
	<i>HK\$'000</i>
Opening defined benefit obligation	25,450
Interest cost	610
Current service cost	59
Actuarial losses (resulting from changes of financial assumptions)	502
Benefits paid	<u>(2,548)</u>
Closing defined benefit obligation	<u><u>24,073</u></u>

Changes in fair value of plan assets are as follows:

	2011
	<i>HK\$'000</i>
Opening fair value of plan assets	25,502
Interest income	1,096
Return on plan assets	10,770
Benefits paid	<u>(2,548)</u>
Closing fair value of plan assets	<u><u>34,820</u></u>

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

	2011
	%
Cash	20
Equities (<i>Note</i>)	80

Note: The equities represented investments in two equity securities which are securities of The Hong Kong & China Gas Limited and Liu Chong Hing Investment Limited, which are both listed on the Hong Kong Stock Exchange.

The amounts of assets of the ORSO (Defined benefit) Scheme invested in the Bank's own deposit account as at 31 December 2011 are as follows:

	2011
	<i>HK\$'000</i>
Deposits with the Bank	6,814

The significant assumptions used in determining the defined benefit obligations are shown below:

	2011
	%
Discount rate (per annum)	1.5
Expected rate of salary increase (per annum)	3.0
Expected rate of pension increase (per annum)	0.0
Interest credited on welfare balance (per annum)	2.0

The table below indicates the potential effect of change of the significant assumptions on the defined benefit obligation:

	2011	
	Change in assumption	
	+0.25%	-0.25%
	<i>HK\$'000</i>	<i>HK\$'000</i>
Discount rate	(547)	572
Expected rate of salary increase	65	(63)
Expected rate of pension increase	404	—
Interest credited on welfare balance	<u>9</u>	<u>8</u>

As at 31 December 2011, the weighted average duration of the defined benefit obligation is approximately 9.3 years.

The costs for providing benefits to the members of the ORSO (Defined benefit) Scheme are funded by the Group. The contributions required by the Group to fund the costs are determined by periodic funding valuations in accordance with the Occupational Retirement Scheme Ordinance.

As of 31 December 2011, the Group is not required to contribute to the ORSO (Defined benefit) Scheme with respect to the members of the ORSO (Defined benefit) Scheme according to the results of the last statutory funding valuation of the ORSO (Defined benefit) Scheme as at 31 December 2011. The Group's contribution rate may be subject to change when the results of the next statutory funding valuation of the ORSO (Defined benefit) Scheme as at 31 December 2014 become available.

39. 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	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company/immediate holding company/fellow subsidiaries	<u>9,935</u>	<u>7,777</u>	<u>16,618</u>	<u>25,205</u>
Associates	<u>19,852</u>	<u>16,757</u>	<u>3,260</u>	<u>3,317</u>
Key management personnel (<i>Note</i>)	<u>5,513</u>	<u>6,514</u>	<u>10,960</u>	<u>9,524</u>

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

	Loan to related parties		Deposit from related parties	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Ultimate holding company/immediate holding company/fellow subsidiaries	<u>34,592</u>	<u>36,800</u>	<u>159,663</u>	<u>159,138</u>
Associates	<u>14,337</u>	<u>37,599</u>	<u>97,147</u>	<u>75,730</u>
Key management personnel (<i>Note</i>)	<u>417,568</u>	<u>969,505</u>	<u>653,558</u>	<u>651,396</u>

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

Amounts due from related parties are included in advances and other accounts on the statements of financial position.

Amounts due to related parties are included in deposits from customers on the statements of financial position.

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

	Interest, commission and rental income		Interest and rental expenses		Computer service expense		Dividend income	
	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>15,885</u>	<u>7,045</u>	<u>27,723</u>	<u>14,101</u>	<u>17,195</u>	<u>19,371</u>	<u>39,000</u>	<u>35,000</u>

At the end of reporting period, the Bank had the following material outstanding balances with its subsidiaries as set out in note 22:

	Amounts due from		Amounts due to	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Subsidiaries	<u>248,376</u>	<u>230,891</u>	<u>846,080</u>	<u>793,690</u>

Included in the amounts due to subsidiaries are current accounts of approximately HK\$210,175,000 (2011: HK\$221,024,000). The current accounts are unsecured, non-interest bearing and repayable on demand.

Included in the amounts due to subsidiaries are saving accounts of approximately HK\$13,672,000 (2011: HK\$13,355,000). The saving accounts are unsecured and bearing interest at prevailing market interest rates and repayable on demand.

The remaining amounts due to subsidiaries are fixed deposits of approximately HK\$622,233,000 (2011: HK\$559,311,000). The fixed deposits are unsecured, bearing interest at prevailing market interest rates and mature within one year.

Compensation of key management personnel

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

	THE GROUP AND THE BANK	
	2012	2011
	HK\$'000	HK\$'000
Short-term benefits	66,002	61,726
Post employment benefits	<u>4,873</u>	<u>4,286</u>
	<u>70,875</u>	<u>66,012</u>

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

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

40. 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 Hong Kong Banking Ordinance; and
- support the Group's stability and business growth so as to provide reasonable returns for shareholders.

The capital adequacy ratios as at 31 December 2012 and 31 December 2011 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the Hong Kong Monetary Authority for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group has established a 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.

IV. INDEBTEDNESS STATEMENT

At the close of business on 31 October 2013, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this Composite Document, the CHB Group had the following indebtedness:

- i. outstanding certificates of deposit with carrying value of approximately HK\$563 million issued;
- ii. outstanding amount with carrying value of approximately HK\$1,807 million of an original US\$225 million subordinated note issued; and
- iii. financial assets sold under repurchase agreements with carrying value amounting to approximately HK\$1,109 million.

In addition, at the close of business on 31 October 2013, the CHB Group had deposits from customers, money market deposits, term loans from other banks, direct credit substitutes, trade-related contingencies, undrawn formal standby facilities, credit lines and other commitments that are arising from the normal course of banking business.

Save as aforesaid, and apart from intra-group liabilities, the CHB Group did not have outstanding at the close of business on 31 October 2013, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

V. MATERIAL CHANGE

Save as disclosed below, the CHB Directors confirm that as at the Latest Practicable Date, there had been no material changes in the financial or trading position or outlook of the CHB Group since 31 December 2012, being the date to which the latest published audited financial statements of CHB were made up:

Interim results for the six months ended 30 June 2013

The unaudited net interest income of the CHB Group for the six months ended 30 June 2012 and 30 June 2013 were approximately HK\$400.6 million and HK\$475.7 million, respectively, representing a growth of 18.8%. The unaudited net operating income of the CHB Group for the six months ended 30 June 2012 and 30 June 2013 were approximately HK\$644.1 million and HK\$693.4 million, respectively, representing a growth of approximately 7.7%.

The unaudited annualised return on equity of the CHB Group was approximately 7.4% for the six months ended 30 June 2013, representing a drop of approximately 3.1% as compared to the year ended 31 December 2012.

The unaudited operating expenses of the CHB Group for the six months ended 30 June 2012 and 30 June 2013 were approximately HK\$387.1 million and HK\$358.3 million, respectively, representing a drop of approximately 7.5%. The cost-to-income ratio was approximately 51.7% (unaudited) for the six months ended 30 June 2013, representing a drop of 7.9 percentage points as compared to 59.6% (audited) for the year ended 31 December 2012.

The unaudited profits attributable to the shareholders of the CHB Group for the six months ended 30 June 2012 and 30 June 2013 were approximately HK\$259.7 million and HK\$276.3 million, respectively, representing an increase of approximately 6.4%.

The equity attributable to shareholders of the CHB Group for the year ended 31 December 2012 and for the six months ended 30 June 2013 were approximately HK\$7,374.1 million (audited) and HK\$7,447.3 million (unaudited), respectively, representing an increase of approximately 1%.

Further details of CHB's interim results for the six months ended 30 June 2013 are set out in its 2013 interim report.

1. THREE-YEAR FINANCIAL SUMMARY

Set out below is the summary of the financial information of Yuexiu for three financial years ended 31 December 2012, as extracted from the audited consolidated financial statements of the Yuexiu for the three financial years ended 31 December 2012. The auditors of Yuexiu, PricewaterhouseCoopers, did not issue any qualified opinion on the financial statement of Yuexiu for each of the three years ended 31 December 2012. Yuexiu and the Yuexiu Group had no exceptional or extraordinary items because of size, nature or incidence in respect of the consolidated income statement of the Yuexiu Group for the three years ended 31 December 2012.

Earnings per ordinary share**Yue Xiu Enterprises (Holdings) Limited**

	2012	2011	2010
Profit attributable to owners of the parent (HK\$'000)	1,640,766	3,170,006	1,006,890
Number of ordinary shares in issue ('000)	7,000	7,000	7,000
Basic and diluted earnings per share (HK dollars)	234	453	144

SUMMARY OF FINANCIAL INFORMATION

(i) Consolidated income statements

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>	2010 <i>HK\$'000</i> <i>(Restated)</i>
Continuing operations			
Revenue	2,135,175	2,063,786	1,673,359
Cost of sales	<u>(766,646)</u>	<u>(954,396)</u>	<u>(725,371)</u>
Gross profit	1,368,529	1,109,390	947,988
Other gains, net	189,636	123,430	(28,785)
Other income	9,478	13,646	18,697
General and administrative expenses	(402,843)	(343,482)	(294,723)
Selling and distribution expenses	(2,837)	(589)	(502)
Loss on disposal of toll roads	—	—	(103,698)
Negative goodwill arising from additional interest acquired in an associate	<u>—</u>	<u>77,018</u>	<u>45,620</u>
Operating profit	1,161,963	979,413	584,597
Finance income	114,761	31,503	47,945
Finance costs	(693,709)	(329,462)	(148,938)
Share of profits less losses of			
- jointly controlled entities	8,765	20,815	19,687
- associates	<u>1,669,412</u>	<u>3,250,605</u>	<u>697,947</u>
Profit before income tax	2,261,192	3,952,874	1,201,238
Income tax expense	<u>(291,020)</u>	<u>(135,998)</u>	<u>(114,179)</u>
Profit for the year from continuing operations	1,970,172	3,816,876	1,087,059
Discontinued operations			
Loss for the year from discontinued operations	<u>—</u>	<u>(222,488)</u>	<u>(608,079)</u>
Profit for the year	<u>1,970,172</u>	<u>3,594,388</u>	<u>478,980</u>
Profit attributable to:			
Owners of the parent	1,640,766	3,170,006	1,006,890
Non-controlling interests	<u>329,406</u>	<u>424,382</u>	<u>(527,910)</u>
	<u>1,970,172</u>	<u>3,594,388</u>	<u>478,980</u>
Dividends			
Paid	—	—	—
Proposed	<u>—</u>	<u>—</u>	<u>—</u>

(ii) Consolidated balance sheets

	As at 31 December		
	2012 HK\$'000	2011 HK\$'000 (Restated)	2010 HK\$'000 (Restated)
ASSETS			
Non-current assets			
Intangible assets	17,653,020	14,261,321	9,907,921
Property, plant and equipment	893,066	740,901	267,909
Investment properties	596,760	145,069	134,615
Leasehold land and land use rights	—	—	3,520
Interests in jointly controlled entities	408,624	400,192	360,770
Investments in associates	16,426,463	15,342,260	11,883,395
Available-for-sale financial assets	873,707	172,844	175,326
Loans and receivables	2,121,223	—	—
Derivative financial instrument	—	4,294	10,736
Trade receivables, prepayments, deposits and other receivables	174,388	181,915	296,531
Deferred income tax assets	2,567	2,590	6,925
	<u>39,149,818</u>	<u>31,251,386</u>	<u>23,047,648</u>
Current assets			
Inventories	—	—	111,105
Amounts due from holding company	983,178	—	—
Amounts due from associates	20,146	632,984	205,860
Amounts due from related companies	215,553	229,580	228,635
Amount due from a non-controlling interests	—	—	29,297
Trade receivables, prepayments, deposits and other receivables	1,195,821	1,170,204	2,520,747
Loans and receivables	649,994	—	—
Financial assets at fair value through profit or loss	60,702	21,775	17,499
Current income tax recoverable	—	—	4,307
Pledged bank balances and deposits	13,830	14,349	5,498
Client trust bank balances	249,390	94,957	71,389
Cash and cash equivalents	2,384,440	3,498,580	3,388,601
	<u>5,773,054</u>	<u>5,662,429</u>	<u>6,582,938</u>
Asset classified as held for sale	248,398	—	—
	<u>6,021,452</u>	<u>5,662,429</u>	<u>6,582,938</u>
Total assets	<u>45,171,270</u>	<u>36,913,815</u>	<u>29,630,586</u>

	As at 31 December		
	2012 HK\$'000	2011 HK\$'000 (Restated)	2010 HK\$'000 (Restated)
EQUITY			
Equity attributable to owners of the parent			
Share capital	70,000	70,000	70,000
Other reserves	16,633,691	14,770,360	11,193,827
	16,703,691	14,840,360	11,263,827
Non-controlling interests	6,914,470	6,916,498	6,362,306
Total equity	<u>23,618,161</u>	<u>21,756,858</u>	<u>17,626,133</u>
LIABILITIES			
Non-current liabilities			
Borrowings	11,824,050	10,712,606	4,345,240
Other payables and accruals	127,044	—	—
Deferred income tax liabilities	2,374,641	1,970,012	1,820,445
	<u>14,325,735</u>	<u>12,682,618</u>	<u>6,165,685</u>
Current liabilities			
Trade payables	367,245	187,798	214,600
Other payables and accruals	1,107,499	688,021	430,381
Amount due to a jointly controlled entity	38,823	21,586	446
Amounts due to associates	73,422	73,427	73,439
Amounts due to related companies	733,861	304,585	430,882
Amounts due to non-controlling interests	303,510	228,539	910,955
Current income tax liabilities	101,564	63,452	62,685
Borrowings	4,501,450	906,931	3,715,380
	<u>7,227,374</u>	<u>2,474,339</u>	<u>5,838,768</u>
Total liabilities	<u>21,553,109</u>	<u>15,156,957</u>	<u>12,004,453</u>
Total equity and liabilities	<u>45,171,270</u>	<u>36,913,815</u>	<u>29,630,586</u>

2. AUDITED FINANCIAL INFORMATION

The following financial information has been extracted from the annual report of Yuexiu for the year ended December 31, 2012.

YUE XIU ENTERPRISES (HOLDINGS) LIMITED**DIRECTORS' REPORT**

The directors submit their report together with the audited consolidated financial statements of Yue Xiu Enterprises (Holdings) Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31 December 2012.

Principal activities

The principal activities of the Company are investment and property holding. The principal activities of its principal subsidiaries, jointly controlled entities and associates are set out in notes 46, 47 and 48 respectively to the consolidated financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 5.

The directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and of the Company during the years are set out in the consolidated statement of changes in equity on pages 13 and 14 and note 28(b).

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group and of the Company are set out in note 16 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK\$1,930,000 (2011: HK\$4,110,000).

Share capital

Details of share capital of the Company are set out in note 27 to the consolidated financial statements.

Directors

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

Mr. Lu Zhifeng

Mr. Zhang Zhaoxing

Mr. Liang Ningguang

Ms. Zhao Siyuan

Mr. Li Xinchun

Mr. He Zhifeng

Mr. Zhou Qianding

Mr. Liang Yi (Resigned on 25 October 2012)

Mr. Wu Shanghui (Appointed on 25 October 2012)

In accordance with Article 89 of the Company's Articles of Association, all present directors retire from office and, being eligible, offer themselves for re-election.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Directors' interests

Except for those transaction disclosed in note 43, no contracts of significance in relation to the Group's business to which the Company, its subsidiaries, fellow subsidiaries, related companies or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its subsidiaries, fellow subsidiaries, related companies or its parent company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Auditor

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board

Chairman

Hong Kong, 28th March 2013

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDER OF YUE XIU ENTERPRISES (HOLDINGS) LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Yue Xiu Enterprises (Holdings) Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 5 to 105, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of consolidated financial statements that give a true and fair view 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 Company and of the Group as at 31 December 2012, 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.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28th March 2013

YUE XIU ENTERPRISES (HOLDINGS) LIMITED

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

	<i>Note</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Continuing operations			
Revenue	5	2,135,175	2,063,786
Cost of sales	8	<u>(766,646)</u>	<u>(954,396)</u>
Gross profit		1,368,529	1,109,390
Other gains, net	6	189,636	123,430
Other income	7	9,478	13,646
General and administrative expenses	8	(402,843)	(343,482)
Selling and distribution expenses	8	(2,837)	(589)
Negative goodwill arising from additional interest acquired in an associate	21	<u>—</u>	<u>77,018</u>
Operating profit		1,161,963	979,413
Finance income	9	114,761	31,503
Finance costs	10	(693,709)	(329,462)
Share of profits less losses of			
- jointly controlled entities	20	8,765	20,815
- associates	21	<u>1,669,412</u>	<u>3,250,605</u>
Profit before income tax		2,261,192	3,952,874
Income tax expense	11	<u>(291,020)</u>	<u>(135,998)</u>
Profit for the year from continuing operations		1,970,172	3,816,876
Discontinued operations			
Loss for the year from discontinued operations	41	<u>—</u>	<u>(222,488)</u>
Profit for the year		<u>1,970,172</u>	<u>3,594,388</u>
Profit attributable to:			
Owners of the parent		1,640,766	3,170,006
Non-controlling interests		<u>329,406</u>	<u>424,382</u>
		<u>1,970,172</u>	<u>3,594,388</u>

The notes on pages 15 to 105 are an integral part of these consolidated financial statements.

YUE XIU ENTERPRISES (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Comprehensive income:		
Profit for the year	1,970,172	3,594,388
Other comprehensive income:		
Currency translation differences	(8,442)	1,029,704
Share of other comprehensive income of:		
- associates	76,149	(250,121)
Release of other comprehensive income upon disposal of:		
- subsidiaries	—	(32,422)
Available-for-sale financial assets		
- changes in fair value	166,375	(10,909)
- deferred tax on fair value (gain)/loss of available-for-sale financial assets	(19,532)	2,673
Transfer from property, plant and equipment to investment properties	25,599	—
	<u>240,149</u>	<u>738,925</u>
Total comprehensive income for the year	<u>2,210,321</u>	<u>4,333,313</u>
Attributable to:		
Owners of the parent	1,863,325	3,602,476
Non-controlling interests	346,996	730,837
Total comprehensive income for the year	<u>2,210,321</u>	<u>4,333,313</u>

The notes on pages 15 to 105 are an integral part of these consolidated financial statements.

YUE XIU ENTERPRISES (HOLDINGS) LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2012

	<i>Note</i>	As at 31 December		As at
		2012	2011	1 January
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Restated)</i>	<i>(Restated)</i>
ASSETS				
Non-current assets				
Intangible assets	15	17,653,020	14,261,321	9,907,921
Property, plant and equipment	16	893,066	740,901	267,909
Investment properties	17	596,760	145,069	134,615
Leasehold land and land use rights	18	—	—	3,520
Interests in jointly controlled entities	20	408,624	400,192	360,770
Investments in associates	21	16,426,463	15,342,260	11,883,395
Available-for-sale financial assets	22	873,707	172,844	175,326
Loans and receivables	33	2,121,223	—	—
Derivative financial instrument		—	4,294	10,736
Trade receivables, prepayments, deposits and other receivables	24	174,388	181,915	296,531
Deferred income tax assets	30	2,567	2,590	6,925
		<u>39,149,818</u>	<u>31,251,386</u>	<u>23,047,648</u>
Current assets				
Inventories	23	—	—	111,105
Amounts due from holding company	43(c)(i)	983,178	—	—
Amounts due from associates	43(c)(iii)	20,146	632,984	205,860
Amounts due from related companies	43(c)(vi)	215,553	229,580	228,635
Amount due from a non-controlling interests	32	—	—	29,297
Trade receivables, prepayments, deposits and other receivables	24	1,195,821	1,170,204	2,520,747
Loans and receivables	33	649,994	—	—
Financial assets at fair value through profit or loss	25	60,702	21,775	17,499
Current income tax recoverable		—	—	4,307
Pledged bank balances and deposits	26	13,830	14,349	5,498
Client trust bank balances	26	249,390	94,957	71,389
Cash and cash equivalents	26	2,384,440	3,498,580	3,388,601
		<u>5,773,054</u>	<u>5,662,429</u>	<u>6,582,938</u>
Asset classified as held for sale	34	248,398	—	—
		<u>6,021,452</u>	<u>5,662,429</u>	<u>6,582,938</u>
Total assets		<u>45,171,270</u>	<u>36,913,815</u>	<u>29,630,586</u>

	<i>Note</i>	As at 31 December		As at
		2012	2011	1 January
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Restated)</i>	<i>(Restated)</i>
EQUITY				
Equity attributable to owners of the parent				
Share capital	27	70,000	70,000	70,000
Other reserves	28	16,633,691	14,770,360	11,193,827
		16,703,691	14,840,360	11,263,827
Non-controlling interests		6,914,470	6,916,498	6,362,306
Total equity		<u>23,618,161</u>	<u>21,756,858</u>	<u>17,626,133</u>
LIABILITIES				
Non-current liabilities				
Borrowings	29	11,824,050	10,712,606	4,345,240
Other payables and accruals	31	127,044	—	—
Deferred income tax liabilities	30	2,374,641	1,970,012	1,820,445
		14,325,735	12,682,618	6,165,685
Current liabilities				
Trade payables	31	367,245	187,798	214,600
Other payables and accruals	31	1,107,499	688,021	430,381
Amount due to a jointly controlled entity	43(c)(ii)	38,823	21,586	446
Amounts due to associates	43(c)(iv)	73,422	73,427	73,439
Amounts due to related companies	43(c)(ii)	733,861	304,585	430,882
Amounts due to non-controlling interests	32	303,510	228,539	910,955
Current income tax liabilities		101,564	63,452	62,685
Borrowings	29	4,501,450	906,931	3,715,380
		7,227,374	2,474,339	5,838,768
Total liabilities		<u>21,553,109</u>	<u>15,156,957</u>	<u>12,004,453</u>
Total equity and liabilities		<u>45,171,270</u>	<u>36,913,815</u>	<u>29,630,586</u>

On behalf of the board

Director

Director

The notes on pages 15 to 105 are an integral part of these consolidated financial statements.

YUE XIU ENTERPRISES (HOLDINGS) LIMITED

BALANCE SHEET
AS AT 31 DECEMBER 2012

	<i>Note</i>	As at 31 December		As at
		2012	2011	1 January
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Restated)</i>	<i>(Restated)</i>
ASSETS				
Non-current assets				
Property, plant and equipment	16	101,593	21,463	19,029
Investment properties	17	73,170	80,160	84,750
Investments in subsidiaries	19	700,279	500,279	569,186
Investments in associates	21	84	84	84
Other receivables	24	—	—	5,731
Deferred income tax assets	30	—	—	325
		<u>875,126</u>	<u>601,986</u>	<u>679,105</u>
Current assets				
Amount due from holding company	43(c)(i)	983,178	—	—
Amounts due from subsidiaries	43(c)(vii)	7,759,731	5,316,133	5,483,622
Amounts due from associates	43(c)(iii)	19,160	604,499	119,751
Amounts due from related companies	43(c)(vi)	126,324	141,474	141,944
Deposits and other receivables	24	8,725	9,006	142,765
Pledged bank balances and deposits	26	8,347	8,875	28
Cash and cash equivalents	26	<u>721,544</u>	<u>1,706,454</u>	<u>515,041</u>
		<u>9,627,009</u>	<u>7,786,441</u>	<u>6,403,151</u>
Total assets		<u><u>10,502,135</u></u>	<u><u>8,388,427</u></u>	<u><u>7,082,256</u></u>
EQUITY				
Capital and reserves				
Share capital	27	70,000	70,000	70,000
Other reserves	28	<u>547,308</u>	<u>143,247</u>	<u>(6,952)</u>
Total equity		<u>617,308</u>	<u>213,247</u>	<u>63,048</u>

		As at 31 December		As at
	Note	2012	2011	1 January
		HK\$'000	HK\$'000	HK\$'000
			(Restated)	(Restated)
LIABILITIES				
Non-current liabilities				
Borrowings	29	4,660,786	6,067,651	2,615,776
Current liabilities				
Other payables and accruals	31	315,503	237,751	212,269
Amounts due to subsidiaries	43(c)(vii)	1,386,677	1,390,443	729,822
Amounts due to associates	43(c)(iv)	1,995	1,995	1,995
Amounts due to related companies	43(c)(ii)	217,975	293,312	417,290
Current income tax liabilities		14,961	14,961	14,961
Borrowings	29	3,286,930	169,067	3,027,095
		5,224,041	2,107,529	4,403,432
Total liabilities		<u>9,884,827</u>	<u>8,175,180</u>	<u>7,019,208</u>
Total equity and liabilities		<u>10,502,135</u>	<u>8,388,427</u>	<u>7,082,256</u>

On behalf of the board

Director

Director

The notes on pages 15 to 105 are an integral part of this balance sheet.

YUE XIU ENTERPRISES (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012

	<i>Note</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Cash flows from operating activities			
Net cash (used in)/generated from operations	35	(1,907,173)	1,573,590
Interest received		114,761	31,503
Interest paid		(732,528)	(329,462)
Hong Kong profits tax (paid)/refunded		(111)	4,307
Overseas profits tax paid		<u>(247,396)</u>	<u>(187,514)</u>
Net cash (used in)/generated from operating activities		<u>(2,772,447)</u>	<u>1,092,424</u>
Cash flows from investing activities			
Dividends received from associates		723,659	555,236
Dividends received from available-for-sale financial assets		824	5,557
Dividends received from financial assets at fair value through profit or loss		1,225	768
Additional acquisition of an associate		(65,023)	(283,659)
Purchase of property, plant and equipment		(153,720)	(589,277)
Purchase of investment properties		(407,990)	(42,772)
Purchase of financial assets at fair value through profit or loss		(36,975)	(12,179)
Proceeds from disposals of property, plant and equipment		4,476	13,510
Proceeds from disposals of investment properties		15,849	49,919
Proceeds from disposals of intangible assets		177	—
Payment of cash consideration on acquisition of a subsidiary in 2010		—	(904,849)
Payment of cash consideration on acquisition of a subsidiary in 2011		(22,787)	—
Purchases of intangible assets		(79,825)	(383,460)
Acquisition of subsidiaries, net of cash acquired	40	(1,166,613)	(981,544)
Set up of a subsidiary		6	—
Payments for acquiring additional interest in a subsidiary		—	(66,611)
Disposal of subsidiaries, net of cash disposed of		—	(125,718)
Proceeds from disposals of jointly controlled entities		9,171	1,019,775
Proceeds from disposals of financial assets at fair value through profit or loss		10,261	—
Proceeds from/(payment to) associates		612,833	(427,136)
Purchases of available-for-sale financial assets		(782,987)	—
Dividends paid to non-controlling interests		<u>(201,353)</u>	<u>(364,366)</u>
Net cash used in investing activities		<u>(1,538,792)</u>	<u>(2,536,806)</u>

	<i>Note</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Cash flows from financing activities			
Proceeds from bank borrowings		2,535,340	3,658,894
Proceeds from notes issuance		990,803	988,300
Repayment of bank borrowings		(687,814)	(3,484,720)
Pledged bank balances and deposits		519	(8,851)
Proceeds of loan from a jointly controlled entity		17,237	21,140
Proceeds from/(payments to) related companies		429,276	(123,326)
(Payment to)/proceeds from non-controlling interests		(64,840)	194,074
Capital contribution from non-controlling interest		19,872	103,356
(Payment of)/proceeds from loans from non-controlling interests		(42,169)	114,080
Net cash generated from financing activities		<u>3,198,224</u>	<u>1,462,947</u>
Net (decrease)/increase in cash and cash equivalents		(1,113,015)	18,565
Effect of changes in foreign exchange rates		(1,125)	91,414
Cash and cash equivalents at 1 January		<u>3,498,580</u>	<u>3,388,601</u>
Cash and cash equivalents at 31 December		<u>2,384,440</u>	<u>3,498,580</u>
Analysis of balances of cash and cash equivalents:			
Bank balances and cash	26	<u>2,384,440</u>	<u>3,498,580</u>

The notes on pages 15 to 105 are an integral part of these consolidated financial statements.

YUE XIU ENTERPRISES (HOLDINGS) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Attributable to owners of the parent		Non- controlling interests	Total
	Share capital	Other reserves		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2012, as previously reported	70,000	14,818,746	6,916,498	21,805,244
Adjustment on change in accounting policy — adoption of HKAS 12 amendment	—	(48,386)	—	(48,386)
Balance at 1 January 2012, as restated	70,000	14,770,360	6,916,498	21,756,858
Comprehensive income:				
Profit for the year	—	1,640,766	329,406	1,970,172
Other comprehensive income:				
Currency translation differences	—	(2,971)	(5,471)	(8,442)
Share of other comprehensive income of associates	—	76,149	—	76,149
Available-for-sale financial assets				
- changes in fair value	—	135,630	30,745	166,375
- deferred tax on fair value gain of available-for-sale financial assets	—	(11,846)	(7,686)	(19,532)
Transfer from property, plant and equipment to investment properties	—	25,599	—	25,599
	—	222,561	17,588	240,149
Total comprehensive income	—	1,863,327	346,994	2,210,321
Transactions with owners:				
Capital contribution from non-controlling interests	—	—	19,872	19,872
Dividends to non-controlling interests	—	—	(368,896)	(368,896)
Set up of a subsidiary	—	4	2	6
	—	4	(349,022)	(349,018)
Balance at 31 December 2012	70,000	16,633,691	6,914,470	23,618,161

	Attributable to owners of the parent		Non- controlling interests	Total
	Share capital	Other reserves		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2011, as previously reported	70,000	11,294,883	6,362,306	17,727,189
Adjustment on change in accounting policy — adoption of HKAS 12 amendment	—	(101,056)	—	(101,056)
Balance at 1 January 2011, as restated	<u>70,000</u>	<u>11,193,827</u>	<u>6,362,306</u>	<u>17,626,133</u>
Comprehensive income:				
Profit for the year, as restated	—	3,170,006	424,382	3,594,388
Other comprehensive income:				
Currency translation differences, as restated	—	720,089	309,615	1,029,704
Share of other comprehensive income of associates	—	(250,121)	—	(250,121)
Release upon disposal of a subsidiary	—	(32,422)	—	(32,422)
Available-for-sale financial assets				
- changes in fair value	—	(6,695)	(4,214)	(10,909)
- deferred tax on fair value loss of available-for-sale financial assets	—	1,619	1,054	2,673
	<u>—</u>	<u>432,470</u>	<u>306,455</u>	<u>738,925</u>
Total comprehensive income	<u>—</u>	<u>3,602,476</u>	<u>730,837</u>	<u>4,333,313</u>
Transactions with owners:				
Non-controlling interests arising on business combination	—	—	125,532	125,532
Capital contribution from non-controlling interests	—	—	103,356	103,356
Changes in ownership interests in a subsidiary	—	(25,943)	(40,668)	(66,611)
Disposal of a subsidiary	—	—	(499)	(499)
Dividends to non-controlling interests	—	—	(364,366)	(364,366)
	<u>—</u>	<u>(25,943)</u>	<u>(176,645)</u>	<u>(202,588)</u>
Balance at 31 December 2011, as restated	<u>70,000</u>	<u>14,770,360</u>	<u>6,916,498</u>	<u>21,756,858</u>

The notes on pages 15 to 105 are an integral part of these consolidated financial statements.

**YUE XIU ENTERPRISES (HOLDINGS) LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1 General information**

Yue Xiu Enterprises (Holdings) Limited (the “Company”) and its subsidiaries (together the “Group”) are principally engaged in the property holding, provision of financial services, stock brokerage services, money lending, tunnel management, hotel and travel agency services, investment in and development, operation and management of toll highways, expressway and bridges mainly in Guangdong Province and other high-growth provinces in Mainland China and other investment holdings in places mainly within Hong Kong and Mainland China (“China”).

The Company is a limited liability company incorporated in Hong Kong and its registered office is 26/F, Yue Xiu Building, 160-174 Lockhart Road, Wanchai, Hong Kong.

These consolidated financial statements are presented in Hong Kong dollars (“HK\$”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28th March 2013.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

At 31 December 2012, the Group’s current liabilities exceeded its current assets by HK\$1,205,922,000. Guangzhou Yue Xiu Holdings Limited, the holding company, has confirmed its intention to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to enable the Group to continue its business for the foreseeable future. Consequently, the financial statements have been prepared on the going concern basis.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

- (a) Standards and amendments to existing standards which are effective in 2012 and relevant to the Group's operations:

		Effective for accounting periods beginning on or after
HKFRS 7 (Amendment)	Financial Instruments: Disclosures - Transfer of Financial Assets	1 July 2011
HKAS 12 (Amendment)	Deferred tax: Recovery of Underlying Assets	1 January 2012

The Group has assessed the impact of the adoption of these revised standards and amendments and considered that there was no significant impact on the Group's results and financial position nor any substantial changes in the Group's accounting policies and presentation of the consolidated financial statements, except for:

The HKICPA has amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets/liabilities arising on investment properties measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012.

The Group has adopted this amendment retrospectively for the financial year ended 31 December 2012 and the effects of adoption are disclosed as follows.

As disclosed in Note 17, the Group has investment properties measured at their fair values totalling HK\$596,760,000 (1 January 2011: HK\$145,069,000) as at 1 January 2012. As required by the amendment, the Group has re-measured the deferred tax relating to certain investment properties amounting to HK\$596,760,000 (1 January 2011: HK\$145,069,000) as at 1 January 2012 according to the tax consequence on the presumption that they are recovered entirely by sale retrospectively. The comparative figures for 2011 have been restated to reflect the change in accounting policy, as summarised below.

Group:

Effect on consolidated balance sheet	31 December	31 December	1 January
	2012	2011	2011
	HK\$'000	HK\$'000	HK\$'000
Decrease in deferred tax liabilities	16,677	13,821	11,546
Decrease in investment in associates	51,624	62,207	112,602
Decrease in retained earnings	26,069	39,079	100,184
Decrease in exchange fluctuation reserves	<u>8,878</u>	<u>9,307</u>	<u>872</u>
Effect on consolidated income statement		Year ended 31 December	
		2012	2011
		HK\$'000	HK\$'000
Decrease in income tax expenses		2,856	2,275
Increase in net profit attributable to owners of the company		<u>13,010</u>	<u>61,105</u>

For the Company, it has investment properties measured at their fair values totalling HK\$73,170,000 (1 January 2011: HK\$80,160,000) as at 1 January 2012. As required by the amendment, the Company has re-measured the deferred tax relating to certain investment properties amounting to HK\$73,170,000 (1 January 2011: HK\$80,160,000) as at 1 January 2012 according to the tax consequence on the presumption that they are recovered entirely by sale retrospectively. The comparative figures for 2011 have been restated to reflect the change in accounting policy, as summarised below.

Company:

Effect on balance sheet	31 December	31 December	1 January
	2012	2011	2011
	HK\$'000	HK\$'000	HK\$'000
Increase in deferred tax assets	—	—	325
Increase in retained earnings	<u>—</u>	<u>—</u>	<u>325</u>
Effect on income statement		Year ended 31 December	
		2012	2011
		HK\$'000	HK\$'000
Decrease in income tax expenses		—	325
Increase in net profit attributable to owners of the company		<u>—</u>	<u>325</u>

- (b) Standards and amendments to existing standards that are not yet effective and have not been early adopted by the Group, which are relevant to the Group:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements	1 July 2012
HKAS 19 (Amendment)	Employee Benefits	1 January 2013
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013
HKAS 32 (Amendment)	Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 1 (Amendment)	First Time Adoption on Government Loan	1 January 2013
HKFRS 7 (Amendment)	Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 7 and HKFRS 9 (Amendment)	Financial Instruments: Disclosures - Mandatory Effective Date and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	1 January 2013
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurement	1 January 2013
HK (IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
HKICPA's annual improvements 2011	HKAS 1, 'Financial statement presentation' HKAS 16, 'Property plant and equipment' HKAS 32, 'Financial instruments: Presentation'	1 January 2013

The Group is in the process of assessing the impact of adoption of these standards and amendments to existing standards and the Group is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the consolidated financial statements will be resulted.

2.2 Consolidation

2.2.1 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise from circumstances where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(a) Business combination

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(d) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.2.2 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profits less losses of associates' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

2.2.3 Jointly controlled entities

A jointly controlled entity is a joint venture where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity. Investments in jointly controlled entities are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in jointly controlled entities includes goodwill identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

The Group determines at each reporting date whether there is any objective evidence that the investment in the jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity and its carrying value and recognises the amount adjacent to ‘share of profits less losses of jointly controlled entities’ in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its jointly controlled entities are recognised in the Group’s financial statements only to the extent of unrelated investor’s interests in the jointly controlled entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in interests in jointly controlled entities are recognised in the consolidated income statement.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Hong Kong dollars (HK\$), which is the Company’s and Group’s presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within ‘finance income or cost’. All other foreign exchange gains and losses are presented in the consolidated income statement within ‘other gains/(losses), net’.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in consolidated statement of comprehensive income, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in consolidated statement of comprehensive income as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the end of that reporting period;
- (ii) income and expenses for each consolidated statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2.4 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Company's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Trademark*

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 4 to 10 years.

(c) *Operating rights*

The Group has been granted by the relevant local government authorities the rights to operate the toll highways and bridges for periods of 20 to 35 years. According to the approval documents of the relevant government and the relevant regulations, the Group is responsible for the construction of the toll highways and bridges and the acquisition of the related facilities and equipment and it is also responsible for the operation and management, maintenance and overhaul of the toll highways and bridges during the approved operating periods. The toll fees collected during the operating periods are attributable to the Group. The relevant toll highway/bridge assets are required to be returned to the local government authorities upon the expiry of the operating rights without any compensation to the Group. According to the relevant regulations, these operating rights are not renewable and the Group does not have any termination options.

The Group applies the intangible asset model to account for the toll highway and bridge infrastructures where they are paid by the users of the toll highways and bridges. The concession grantors (the respective local governments) have not provided any contractual guarantees for the recovery of the amounts of construction costs incurred. The intangible assets correspond to the rights granted by the respective concession grantors to the Group to charge users of the toll road/bridge services and are recorded in the consolidated balance sheet as ‘intangible assets’.

Amortisation of intangible operating rights is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the asset. The Group reviews regularly the projected total traffic volume throughout the life of the asset, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on property, plant and equipment are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land and buildings	25 to 50 years or over the lease term, whichever is shorter
Plant, machinery and tools	3 to 20 years
Office equipment, furniture and fixtures	3 to 10 years
Motor vehicles	3 to 5 years

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to appropriate categories within property, plant and equipment when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

2.6 Investment properties

Investment property, principally comprising leasehold land and buildings, is held for long-term rental yields or for capital appreciation or both and is not occupied by the Group. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by independent valuers. Changes in fair values are recorded in the consolidated income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under HKAS 16. Any resulting increase in the carrying amount of the property is recognised in the consolidated statement of comprehensive income to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged in other comprehensive income against any previously recognised revaluation surplus, with any remaining decrease charged to consolidated income statement.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in

use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'amounts due from holding company, associates, related companies and a non-controlling interest', 'trade and other receivables', 'loans and receivables' and 'cash and bank' in the balance sheet (Notes 2.11 and 2.12).

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.8.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of comprehensive

income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as ‘gains and losses from investment securities’.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group’s right to receive payments is established.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated 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.

2.10 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

(b) *Assets classified as available-for-sale*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

(c) *Assets classified as loans and receivables*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets may be impaired includes observable data that comes to the attention of the Company about the following probable loss events:

- (i) significant financial difficulty of the obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments; or
- (iii) it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, no further impairment will be made.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related allowance for impairment losses. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the statement of comprehensive income.

If, in a subsequent period, the amount of allowance for impairment losses decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised (such as an improvement in the debtor's financial position), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

2.11 Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Client trust bank balances

The Group has classified the clients' monies as cash held on behalf of customers under the current assets section of the balance sheet and recognised a corresponding accounts payable to respective clients on grounds that it is liable for any loss or misappropriation of clients' monies.

2.14 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries, jointly controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) **Deferred income tax**

(i) *Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(ii) *Outside basis differences*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.19 Employee benefits

(a) *Pension obligations*

The Group participates in various defined contribution plans under which the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(b) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

The cash subscribed for the shares issued when the options are exercised is credited to share capital (nominal value) and share premium, net of any directly attributable transactions costs.

(c) *Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after balance sheet date are discounted to their present value.

(d) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Employee leave entitlement

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.20 Provisions

Provisions are recognised when: (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised as follows:

- (i) Revenue from provision of management services, tunnel management services, hotel services, travel agency services, securities broking services and insurance management and agency services are recognised when the services are rendered.
- (ii) Revenue from toll is recognised on a receipt basis.
- (iii) Construction income generated from construction and upgrade services rendering by the Group is recognised under the percentage of completion method. The stage of completion is measured on the basis of contract costs incurred up to the balance sheet date as a percentage to the total estimated cost to be incurred for each contract.
- (iv) Rental income is recognised on a straight-line basis over the term of the lease.
- (v) Interest income is recognised using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables are recognised using the original effective interest rate.
- (vi) Guarantee fee income is recognised on a time proportion basis.
- (vii) Dividend income is recognised when the right to receive payment is established.
- (viii) Interest income earned from loans and receivables is using the effective interest method.
- (ix) Non-refundable handling fee income is recognised at the point when the loan is advanced to the borrower.

2.22 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.23 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible assets that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

2.24 Financial guarantees

Financial guarantee contracts under which the Group accepts significant risk from a third party by agreeing to compensate that party on the occurrence of a specified uncertain future event are accounted for in a manner similar to insurance contracts. Provisions are recognised when it is probable that the Group has obligations under such guarantees and an outflow of economic resources will be required to settle the obligations.

2.25 Insurance contracts

The Group assesses at the end of each reporting period the liabilities under its insurance contracts using current estimates of future cash flows. If the carrying amount of the relevant insurance liabilities is less than best estimate of the expenditure required to settle the relevant insurance liabilities at the reporting period, the Group recognised the entire difference in profit or loss. These estimates are recognised only when the outflow is probable and estimates can be reliably measured.

The Group regards its financial guarantee contracts in respect of guarantees provided to its subsidiaries as insurance contracts.

2.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk and price risk), credit risk, and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. It has offices in Hong Kong and China.

Certain financial assets and liabilities are denominated in Renminbi ("RMB") The Group and the Company are exposed to foreign exchange risk arising from the translation of Renminbi against Hong Kong dollars. The Group and the Company have not specifically hedged this exposure considering the steady appreciation of Renminbi against Hong Kong dollars in recent years.

At 31 December 2012, if Renminbi had weakened/strengthened by 5 percent against Hong Kong dollars with all other variables held constant, the Group's post-tax profit for the year would have been approximately HK\$25 million higher/lower (2011: HK\$6 million higher/lower), mainly as a result of foreign exchange gains/losses on translation of Renminbi-denominated monetary assets and liabilities.

At 31 December 2012, if Renminbi had weakened/strengthened by 5 percent against Hong Kong dollars with all other variables held constant, the Company's post-tax profit for the year would have been approximately HK\$89 million higher/lower (2011: HK\$4 million higher/lower), mainly as a result of foreign exchange gains/losses on translation of Renminbi-denominated monetary assets and liabilities.

(ii) Cash flow interest rate risk

The Group's and the Company's interest rate risk arises mainly from borrowings. Borrowings that are subject to variable rates expose the Group and the Company to cash flow interest rate risk.

At 31 December 2012, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the Group's post-tax profit for the year would have been approximately HK\$102.9 million lower/higher (2011: HK\$116.2 million) respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2012, if interest rates on borrowings had been 100 basis points higher/lower with all other variables held constant, the Company's post-tax profit for the year would have been approximately HK\$58.7 million lower/higher (2011: HK\$62.4 million) respectively, mainly as a result of higher/lower interest expense on floating rate borrowings.

(iii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified either as available-for-sale or at fair value through profit or loss.

The available-for-sale financial assets are mainly unlisted equity instruments in China and if the fair value of these equity investments increased or decreased by 10 percent with all other variables held constant, the Group's equity would have been increased or decreased by approximately HK\$87.4 million (2011: HK\$17.3 million).

The financial assets at fair value through profit or loss are mainly listed securities in Hong Kong and if the price of the listed securities increased or decreased by 10 percent with all other variables held constant, the Group's profit for the year would have been increased or decreased by approximately HK\$6.1 million (2011: HK\$2.2 million).

(b) Credit risk

Credit risk arises from cash and cash equivalents, pledged bank balances and deposits, client trust bank balances, amounts due from related parties as well as trade receivables and certain other loans and receivables.

The Group has policies in place to ensure that sales are made to customers with appropriate financial strength and appropriate percentage of down payment. It also has other monitoring procedures to ensure that follow up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual receivable to ensure that adequate impairment losses are made for irrecoverable amounts.

Credit risk is the risk that the counterparty will cause a financial loss for the Group by failing to discharge an obligation. The Group will suffer financial loss when a customer continuously defaults payment or is unable to repay the outstanding loan principal and associated fees and interest. Management is responsible for overseeing the Group's overall asset quality as well as resolving all the important credit risk related issues. The Group has established collection and loan departments to manage its exposure to credit risk. Collection department takes responsibility to monitor loan drawer credit quality and to conduct debt collection task to minimise bad debts and maximise recovery from debts. Loan department takes responsibility to assess the credit quality of the applicants based on applicants' financial position, past experience

and other factors, and to assign credit limit to loan drawers according to internal ratings in accordance with limits set by the management. Under intact credit policy and credit and risk control, the departments report the newly acquired loan portfolios and quality, debts in doubtful situation and recent debts collection status to the management regularly.

The Group has no significant concentrations of credit risks, with exposure spread over a number of counterparties and customers, except for balances of other receivables of HK\$724.2 million (2011: HK\$865.4 million) which are due from government authorities in the PRC in relation to compensation for surrendering the toll stations to Xiangtan Municipal People's Government and the Guangzhou Municipal People's Government (the "GZ Government") (Note 24(a)).

The carrying amount of cash and cash equivalents, pledged bank balances and deposits, client trust bank balances, amounts due from related parties as well as trade receivables and certain other loans and receivables represents the Group's and the Company's maximum exposure to credit risk in relation to these financial assets. The credit risk for bank deposits and bank balances is considered by the Group and the Company to be minimal as such amounts are generally placed with State-owned banks or listed banks. The Group and the Company carry out regular reviews and follow-up actions on any overdue amounts to minimise exposures to credit risk.

In addition, the Group and the Company monitor their exposure to credit risk in respect of the financial assistance provided to subsidiaries through exercising control over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

Management does not expect any losses from non-performance by counterparties. The Group and the Company do not hold any collateral as security.

(c) Liquidity risk

Due to the capital intensive nature of the Group's business, the Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

Management monitors rolling forecasts of the Group's liquidity reserve which comprises undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flows. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The table below analyses the Group's and the Company's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity dates.

The amounts disclosed in the table are the contractual undiscounted cash flows.

Group:

	On demand or with no fixed repayment terms	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2012						
Trade payables	367,425	—	—	—	—	367,425
Other payables and accruals	1,107,499	—	—	127,044	—	1,234,543
Borrowings	102,121	5,537,649	4,789,560	4,899,778	6,395,915	21,725,023
Amount due to a jointly controlled entity	38,823	—	—	—	—	38,823
Amounts due to associates	73,422	—	—	—	—	73,422
Amounts due to related companies	733,861	—	—	—	—	733,861
Amounts due to non-controlling interests	303,510	—	—	—	—	303,510
	<u>2,726,661</u>	<u>5,537,649</u>	<u>4,789,560</u>	<u>5,026,822</u>	<u>6,395,915</u>	<u>24,476,607</u>

	On demand or with no fixed repayment terms	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2011						
Trade payables	187,798	—	—	—	—	187,798
Other payables and accruals	688,021	—	—	—	—	688,021
Borrowings	103,547	1,311,759	4,503,704	4,072,376	4,029,773	14,021,159
Amount due to a jointly controlled entity	21,586	—	—	—	—	21,586
Amounts due to associates	73,427	—	—	—	—	73,427
Amounts due to related companies	304,585	—	—	—	—	304,585
Amounts due to non-controlling interests	228,539	—	—	—	—	228,539
	<u>1,607,503</u>	<u>1,311,759</u>	<u>4,503,704</u>	<u>4,072,376</u>	<u>4,029,773</u>	<u>15,525,115</u>

Company:

	On demand or with no fixed repayment terms	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2012						
Other payables and accruals	315,503	—	—	—	—	315,503
Borrowings	102,121	3,434,805	2,836,088	384,000	2,256,436	9,013,450
Amounts due to subsidiaries	1,386,677	—	—	—	—	1,386,677
Amounts due to associates	1,995	—	—	—	—	1,995
Amounts due to related companies	217,975	—	—	—	—	217,975
Financial guarantee	111,699	—	—	—	—	111,699
	<u>2,135,970</u>	<u>3,434,805</u>	<u>2,836,088</u>	<u>384,000</u>	<u>2,256,436</u>	<u>11,047,299</u>

	On demand or with no fixed repayment terms	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Between 5 and 10 years	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2011						
Other payables and accruals	237,751	—	—	—	—	237,751
Borrowings	103,547	256,847	3,168,698	2,291,776	1,180,300	7,001,168
Amounts due to subsidiaries	1,390,443	—	—	—	—	1,390,443
Amounts due to associates	1,995	—	—	—	—	1,995
Amounts due to related companies	293,312	—	—	—	—	293,312
Financial guarantee	53,889	—	—	—	—	53,889
	<u>2,080,937</u>	<u>256,847</u>	<u>3,168,698</u>	<u>2,291,776</u>	<u>1,180,300</u>	<u>8,978,558</u>

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group's policy is to borrow centrally, using a mixture of long-term and short-term borrowing facilities, to meet anticipated funding requirements.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity (excluding non-controlling interests), as shown in the consolidated balance sheet plus net debt.

The gearing ratios at 31 December 2012 and 31 December 2011 were as follows:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Total borrowings (Note 29)	16,325,000	11,619,537
Less: Cash and cash equivalents (Note 26)	<u>(2,384,440)</u>	<u>(3,498,580)</u>
Net debt	13,940,560	8,120,957
Total equity (excluding non-controlling interests)	<u>16,703,691</u>	<u>14,840,360</u>
Total capital	<u>30,644,251</u>	<u>22,961,317</u>
Gearing ratio	<u>45%</u>	<u>35%</u>

3.3 Fair value estimation

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

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

The following table presents the Group's assets that are measured at fair value at 31 December 2012.

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Equity securities (Note 22)				
- Listed securities	871,752	—	—	871,752
- Unlisted securities	—	—	1,955	1,955
Asset classified as held for sale	—	—	248,398	248,398
Financial assets at fair value through profit or loss (Note 25)	60,702	—	—	60,702
Total assets	932,454	—	250,353	1,182,807

The following table presents the Group's assets that are measured at fair value at 31 December 2011.

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
Equity securities (Note 22)				
- Listed securities	730	—	—	730
- Unlisted securities	—	—	172,114	172,114
Derivative financial instrument	—	—	4,294	4,294
Financial assets at fair value through profit or loss (Note 25)	21,775	—	—	21,775
Total assets	22,505	—	176,408	198,913

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily Hong Kong Stock Exchange equity investments classified as trading securities.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Techniques, such as estimated discounted cash flows or market comparison approach are used to determine fair value for the financial instruments. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in level 3 instruments for the year ended 31 December 2012:

	Available- for-sale financial assets	Derivative financial instrument	Assets classified as held for sale	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2012	172,114	4,294	—	176,408
Currency translation differences	(141)	(2)	—	(143)
Addition	246	—	—	246
Fair value gains on available-for-sale financial assets recognised in the consolidated statement of comprehensive income	78,134	—	—	78,134
Fair value loss on derivative financial instrument recognised in the consolidated income statement	—	(4,292)	—	(4,292)
Transfer to asset classified as held for sale	(248,398)	—	248,398	—
As at 31 December 2012	<u>1,955</u>	<u>—</u>	<u>248,398</u>	<u>250,353</u>

The following table presents the changes in level 3 instruments for the year ended 31 December 2011:

	Available- for-sale financial assets	Derivative financial instrument	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January 2011	174,369	10,736	185,105
Currency translation differences	4,229	368	4,597
Fair value losses on available-for-sale financial assets recognised in the consolidated statement of comprehensive income	(6,476)	—	(6,476)
Fair value loss on derivative financial instrument recognised in the consolidated income statement	—	(6,810)	(6,810)
Disposal of a subsidiary (Note 41)	(8)	—	(8)
As at 31 December 2011	<u>172,114</u>	<u>4,294</u>	<u>176,408</u>

4 Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets or liabilities are discussed below.

(a) Depreciation of property, plant and equipment

The Group amortises its leasehold land classified as finance lease and depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value commencing from the date the asset is placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(b) Impairment of leasehold land and land use rights and property, plant and equipment

Leasehold land and land use rights and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of leasehold land and land use rights and property, plant and equipment, have been determined based on the higher of their value-for-sale or value-in-use, taking into account the latest market information and past experience.

(c) Amortisation of intangible operating rights

Amortisation of intangible operating rights is calculated to write off their costs on a units-of-usage basis based on the traffic volume for a particular period over the projected total traffic volume throughout the life of the assets.

The Group reviews regularly the projected total traffic volume throughout the life of the respective assets, and if it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

At present, the range of annual traffic growth rates that have been projected for individual toll highways and bridges is around 0% to 35.4%. Traffic volumes of certain toll highways and bridges of the Group have become saturated; while traffic growth rate of a toll highway in Hubei is forecasted to be significant due to the opening of its extension connected to Wuhan Tianhe Airport.

(d) Impairment of intangible operating rights

The Group tests whether intangible operating right has suffered any impairment if such indicator exists. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit to which the intangible operating right belongs and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, impairment loss may arise.

(e) Fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), with adjustments to reflect those differences;

- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying management's estimation of fair value are those relating to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(f) Fair value of available-for-sale financial assets

The best evidence of fair value is current prices in an active market for similar available-for-sale financial assets. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

- (i) current prices in an active market for the available-for-sale financial assets of different nature, condition or location, with adjustment to reflect those differences.
- (ii) recent prices of similar available-for-sale financial assets in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

(g) Impairment of trade and other receivables, and loans and receivables

The Group makes provision for impairment of trade and other receivables, and loans and receivables based on an assessment of the recoverability. Provisions are applied to the trade and other receivables, and loans and receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of trade and other receivables, and loans and receivables and loss for the impairment of receivable is recognised in the period in which such estimates is changed.

(h) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to market conditions. Management reassesses these estimates at each balance sheet date.

(i) Current and deferred income taxes

The Group is mainly subject to income tax in China and Hong Kong. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related payments. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax in the periods in which such estimate is changed.

(j) Provision for withholding income tax on undistributed profits

The Group is subject to withholding income tax on undistributed profits of its foreign-invested enterprises in China. Significant judgement is required in determining the dividend pay-out policy of the foreign-invested enterprises controlled by the Group and the amount of the provision for withholding income tax. The Group monitors its dividend pay-out policy and may demand for dividend distribution from the foreign-invested enterprises controlled by the Group. This may result in additional tax provisions as disclosed in note 11.

(k) *Provision for capital gain tax on disposal of jointly controlled entities*

The Group is subject to capital gain tax upon the disposal of jointly controlled entities principally located in China. Significant judgement is required in determining the amount of provision and the timing of payment of the related payments. Where the final tax outcome is different from the amount that was initially recorded, such difference will impact the income tax and deferred tax provisions in the periods in which such determination are made.

5 Revenue - continuing operations

The Group is principally engaged in the property holding, provision of financial services, stock brokerage services, tunnel management, hotel and travel agency services, investment in and development, operation and management of toll highways, expressway and bridges mainly in Guangdong Province and other high-growth provinces in China and other investment holdings in places mainly within Hong Kong and China. Revenue recognised is as follows:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Toll revenue	1,831,254	1,590,812
Tunnel management fee	90,346	59,976
Construction income of toll highways and bridges upgrade services	79,860	375,567
Rental income	27,433	25,260
Handling fee income	64,198	—
Interest income earned from loans and receivables	22,062	—
Commission income from insurance management and agency services	39	776
Commission and handling income on securities broking	17,934	4,986
Guarantee fee income from a third party	—	84
Dividend income from		
- financial assets at fair value through profit or loss	1,225	768
- available-for-sale financial assets	824	5,557
	<u>2,135,175</u>	<u>2,063,786</u>

6 Other gains/(losses), net - continuing operations

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fair value gains on investment properties (Note 17)	34,984	14,219
(Loss)/gain on disposals of investment properties	(1,120)	2,747
Gain on disposal of property, plant and equipment	672	10,472
Gain on disposal of a jointly-controlled entity	9,171	—
Fair value gain/(loss) on financial assets at fair value through profit or loss	6,692	(6,656)
Gain/(loss) on disposals of financial assets at fair value through profit or loss	5,521	(1,247)
Fair value loss on derivative financial instrument	(4,292)	(6,810)
Exchange gain, net (Note a)	23,120	109,162
Provision for business tax written back (Note b)	89,059	—
Others	25,829	1,543
	<u>189,636</u>	<u>123,430</u>

Note:

- (a) In 2011, certain subsidiaries of the Group repaid their shareholder's loans subsequent to their surrender of toll stations to the Guangzhou Government, the corresponding cumulative exchange differences of approximately HK\$107.9 million arising from the shareholder's loans previously recognised in exchange fluctuation reserve were recognised in the consolidated income statement upon repayments.
- (b) The amount was written back of the business tax provision on the compensation in respect of the resumption of four Class I Highways by the GZ Government referred to in note 24(a).

7 Other income - continuing operations

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Management fee income	3,803	362
Others	5,675	13,284
	<u>9,478</u>	<u>13,646</u>

8 Expenses by nature - continuing operations

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advertising expenses	2,837	589
Amortisation of intangible assets (Note 15)	373,886	331,300
Auditor's remuneration		
- audit services	6,041	6,228
- non-audit services	1,105	4,071
Business tax	63,003	54,993
Construction cost of toll highways and bridges upgrade services	79,860	375,567
Depreciation of property, plant and equipment (Note 16)	34,171	31,956
Donations	1,930	4,110
Employee benefit expenses (Note 13)	283,707	216,316
Entertainment	16,240	11,822
Impairment of goodwill (Note 15)	—	1,952
Legal and professional fee	15,740	8,659
Motor car expenses	9,289	6,712
Operating lease rentals on land and buildings	22,006	8,492
Repair and maintenance	7,334	13,006
Reversal of provision for other receivables	(4,439)	(3,376)
Reversal of provision for impairment of amount due from a related company (Note 43)	(45,896)	(7,711)
Toll road maintenance and direct costs	219,655	174,262
Travelling	5,838	5,489
Utilities expenses and office supplies	33,803	23,365
Others	46,216	30,665
Total expenses from continuing operations	<u>1,172,326</u>	<u>1,298,467</u>
Representing:		
Costs of sales	766,646	954,396
General and administrative expenses	402,843	343,482
Selling and distribution expenses	2,837	589
	<u>1,172,326</u>	<u>1,298,467</u>

9 Finance income - continuing operations

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income from bank deposits	20,882	19,549
Interest income from		
- external customers	14,860	11,042
- associates	30,669	912
Interest income on compensation receivable	48,350	—
	<u>114,761</u>	<u>31,503</u>

10 Finance costs - continuing operations

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on:		
- Bank borrowings	603,990	343,693
- Notes payable	101,563	351
- Loans from non-controlling interests of certain subsidiaries	20,325	17,639
- Fair value adjustment on non-interest bearing loans from non-controlling interests of certain subsidiaries	(8,908)	(16,976)
- Other loans	2,235	1,516
Bank charges	4,415	2,134
	<u>723,620</u>	<u>348,357</u>
Less: amount capitalised in construction in progress	(29,911)	(18,895)
	<u>693,709</u>	<u>329,462</u>

The capitalisation rate used to determine the amounts of borrowing costs eligible for capitalisation is 6.72% (31 December 2011: 6.59%) for the year.

11 Income tax expense

The amount of income tax expenses charged to the consolidated income statement represents:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Current tax:		
Hong Kong profits tax (Note (a))		
- current year	170	168
- over provision in prior years	(24)	—
Overseas tax (Notes (b))		
- current year	237,715	127,777
- under-provision in prior years	5,000	600
	<u>242,861</u>	<u>128,545</u>
	-----	-----

The amount of income tax expenses charged to the consolidated income statement represents:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Deferred tax: (Note 30)		
- origination and reversal of temporary differences	48,159	9,728
- change in accounting policy (note 2.1(a))	—	(2,275)
	<u>48,159</u>	<u>7,453</u>
	-----	-----
Income tax expense	<u>291,020</u>	<u>135,998</u>

- (a) Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profit for the year.
- (b) Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The tax on the Group's profit before income tax less shares of profits less losses of jointly controlled entities and associates differs from the theoretical amount that would arise using the taxation rate of Hong Kong, where majority of the Group's operations were carried out, as follows:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Profit before income tax	2,261,192	3,952,874
Less: share of profits less losses of:		
- jointly controlled entities	(8,765)	(20,815)
- associates	<u>(1,669,412)</u>	<u>(3,250,605)</u>
	<u>583,015</u>	<u>681,454</u>
Calculated at tax rate of 16.5% (2011: 16.5%)	96,197	112,440
Effect of different tax rates in other countries	65,416	36,196
Income not subject to tax	(16,464)	(27,135)
Expenses not deductible for tax purposes	54,901	33,177
Tax losses not recognised	69,054	35,305
Recognition of tax losses previously not recognised	(95)	(26,097)
Utilisation of previously unrecognised tax losses	(17,643)	(10,581)
Under-provision in prior years	5,000	600
Profit of a subsidiary with preferential tax treatment	—	(66,988)
Withholding tax on undistributed profits of subsidiaries and associates	<u>34,654</u>	<u>49,081</u>
Income tax expense	<u><u>291,020</u></u>	<u><u>135,998</u></u>

12 Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK\$404,061,000 (2011 (restated): HK\$150,199,000).

13 Employee benefit expenses (including directors' emoluments)

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Wages, salaries and bonus	225,106	166,676
Pension costs - defined contribution plans	6,617	5,057
Staff welfare	51,984	44,583
	<u>283,707</u>	<u>216,316</u>

Pension scheme arrangements

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("MPF Scheme") and Occupational Retirement Provident Fund Scheme ("ORSO Scheme"), defined contribution schemes managed by an independent trustee. The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers. Under the MPF Scheme, the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings. Both the employer's and the employees' contributions are subject to a cap of HK\$1,250 per month and thereafter contributions are voluntary. Under the ORSO scheme, the Group makes monthly contributions to the scheme ranging from 7% to 15% of the employees' earning.

Subsidiaries of the Group in China are required to participate in a defined contribution retirement plan organised by the Guangzhou Municipal People's Government. All Chinese workers are entitled to a pension equal to a fixed proportion of their ending basic salary amount at their retirement date. The subsidiaries are required to make contributions to the retirement plan at the rates of 20 per cent of the monthly salaries of the employees.

The Group's contributions to the pension schemes are charged to consolidated income statement and such expenses incurred by the Group for the year amounted to approximately HK\$6,617,000 (2011: HK\$5,057,000).

14 Directors' emoluments

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other emoluments:		
Salaries and allowances	3,904	2,590
Retirement benefits - defined contribution plans	—	98
	<u>3,904</u>	<u>2,688</u>

15 Intangible assets

Group:

	Goodwill <i>HK\$'000</i>	Trademark <i>HK\$'000</i>	Operating rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011				
Cost	155,579	199	10,654,395	10,810,173
Accumulated amortisation and impairment	(15,073)	(106)	(887,073)	(902,252)
Net book amount	<u>140,506</u>	<u>93</u>	<u>9,767,322</u>	<u>9,907,921</u>
Year ended 31 December 2011				
Opening net book amount	140,506	93	9,767,322	9,907,921
Exchange difference	6,991	—	481,327	488,318
Additions	—	—	383,460	383,460
Acquisition of a subsidiary (Note 40(a))	11,629	—	3,803,338	3,814,967
Amortisation	—	—	(331,300)	(331,300)
Impairment	(1,952)	—	—	(1,952)
Disposal of a subsidiary (Note 41)	—	(93)	—	(93)
Closing net book amount	<u>157,174</u>	<u>—</u>	<u>14,104,147</u>	<u>14,261,321</u>
At 31 December 2011				
Cost	159,126	—	15,375,292	15,534,418
Accumulated amortisation and impairment	(1,952)	—	(1,271,145)	(1,273,097)
Net book amount	<u>157,174</u>	<u>—</u>	<u>14,104,147</u>	<u>14,261,321</u>
Year ended 31 December 2012				
Opening net book amount	157,174	—	14,104,147	14,261,321
Exchange difference	(128)	—	(11,609)	(11,737)
Additions	—	—	79,825	79,825
Acquisition of a subsidiary (Note 40(a))	123,471	—	3,574,203	3,697,674
Amortisation	—	—	(373,886)	(373,886)
Disposal	—	—	(177)	(177)
Closing net book amount	<u>280,517</u>	<u>—</u>	<u>17,372,503</u>	<u>17,653,020</u>
At 31 December 2012				
Cost	282,517	—	19,013,980	19,296,497
Accumulated amortisation and impairment	(2,000)	—	(1,641,477)	(1,643,477)
Net book amount	<u>280,517</u>	<u>—</u>	<u>17,372,503</u>	<u>17,653,020</u>

Goodwill is mainly attributable to the recognition of deferred tax liabilities on fair value gain arising from the acquisitions of interests in subsidiaries.

Goodwill is allocated to the Group's six cash-generating units including the operations of Guangzhou Northern Second Ring Expressway, Guangxi Guihai Canyon Expressway, Tianjin Jinbao Expressway, Hubei Han Xiao Highway, Hunan Changzhu Expressway and Weixu Expressway.

The recoverable amounts of the above cash-generating units are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five-year period are extrapolated by using the estimated growth rates ranging from 0% to 5.2%.

Key assumptions and considerations used for the value-in-use calculations included estimated traffic flow growth, vehicle types of the toll expressways and highway operation and expected gross domestic product growth rate. Toll fee charging rates of the expressways or highway were regulated by the relevant government authorities in the PRC.

Management determined the above key assumptions and considerations based on past performance and its expectations for the market development. Both internal and external factors are considered, independent professional traffic studies on traffic flow growth will be obtained where appropriate. Discount rates adopted are ranging from 10.8% to 12.5%. The discount rates used are pre-tax and reflect specific risks relating to the respective toll highways operator industry.

At 31 December 2012, intangible operating rights with carrying value of HK\$16,643,463,000 (2011: HK\$13,288,014,000) were pledged to secure the Group's bank borrowings (Note 36).

16 Property, plant and equipment

(a) Group

	Leasehold land and buildings <i>HK\$'000</i>	Plant, machinery and tools <i>HK\$'000</i>	Office equipment, furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31 December 2010						
Cost	168,220	1,838,865	109,497	24,426	—	2,141,008
Accumulated depreciation and impairment	(44,577)	(1,781,619)	(36,885)	(10,018)	—	(1,873,099)
Net book amount	<u>123,643</u>	<u>57,246</u>	<u>72,612</u>	<u>14,408</u>	<u>—</u>	<u>267,909</u>
Year ended 31 December 2011						
Opening net book amount	123,643	57,246	72,612	14,408	—	267,909
Currency translation differences	1,850	—	2,649	518	—	5,017
Additions	615	6,076	120,379	7,282	454,925	589,277
Acquisition of a subsidiary (Note 40(a))	—	—	979	980	—	1,959
Disposals	(2,421)	—	(617)	—	—	(3,038)
Disposal of a subsidiary (Note 41)	(28,188)	(52,073)	(1,466)	(1,007)	—	(82,734)
Depreciation						
- continuing operations	(4,218)	(1,040)	(22,552)	(4,146)	—	(31,956)
- discontinued operations	(765)	(3,366)	(506)	(175)	—	(4,812)
Write-off	—	—	(721)	—	—	(721)
Closing net book amount	<u>90,516</u>	<u>6,843</u>	<u>170,757</u>	<u>17,860</u>	<u>454,925</u>	<u>740,901</u>
At 31 December 2011						
Cost	112,251	12,288	201,201	26,338	454,925	807,003
Accumulated depreciation and impairment	(21,735)	(5,445)	(30,444)	(8,478)	—	(66,102)
Net book amount	<u>90,516</u>	<u>6,843</u>	<u>170,757</u>	<u>17,860</u>	<u>454,925</u>	<u>740,901</u>

(a) Group

	Leasehold land and buildings	Plant, machinery and tools	Office equipment, furniture and fixtures	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2011						
Cost	112,251	12,288	201,201	26,338	454,925	807,003
Accumulated depreciation and impairment	(21,735)	(5,445)	(30,444)	(8,478)	—	(66,102)
Net book amount	<u>90,516</u>	<u>6,843</u>	<u>170,757</u>	<u>17,860</u>	<u>454,925</u>	<u>740,901</u>
Year ended 31 December 2012						
Opening net book amount	90,516	6,843	170,757	17,860	454,925	740,901
Currency translation differences	(26)	—	(128)	(17)	(407)	(578)
Additions	82,281	11	14,291	9,667	77,381	183,631
Acquisition of a subsidiary (Note 40(a))	—	—	5,664	1,524	—	7,188
Disposals	(2,177)	(509)	(744)	(374)	—	(3,804)
Depreciation						
- continuing operations	(2,577)	(742)	(25,754)	(5,098)	—	(34,171)
Transfer to investment properties	(101)	—	—	—	—	(101)
Closing net book amount	<u>167,916</u>	<u>5,603</u>	<u>164,086</u>	<u>23,562</u>	<u>531,899</u>	<u>893,066</u>
At 31 December 2012						
Cost	192,103	11,711	220,256	36,609	531,899	992,578
Accumulated depreciation and impairment	(24,187)	(6,108)	(56,170)	(13,047)	—	(99,512)
Net book amount	<u>167,916</u>	<u>5,603</u>	<u>164,086</u>	<u>23,562</u>	<u>531,899</u>	<u>893,066</u>

At 31 December 2012, land and buildings and construction in progress with carrying amount of HK\$414,939,000 (2011: HK\$420,661,000) were pledged to secure bank borrowings (Note 36).

(a) Group

The Group's interests in leasehold land and buildings at their carrying amounts are analysed as follows:

	Group	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
In Hong Kong	166,329	88,893
In China	1,587	1,623
	<u>167,916</u>	<u>90,516</u>

(b) Company

	Leasehold land and buildings	Furniture and fixtures	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2011				
Cost	25,546	15,769	429	41,744
Accumulated depreciation	(6,901)	(15,611)	(203)	(22,715)
Net book amount	<u>18,645</u>	<u>158</u>	<u>226</u>	<u>19,029</u>
Year ended 31 December 2011				
Opening net book amount	18,645	158	226	19,029
Additions	—	2,130	—	2,130
Depreciation	(2,150)	(453)	(49)	(2,652)
Transfer from investment properties (Note 17)	3,000	—	—	3,000
Write-off	—	(44)	—	(44)
Closing net book amount	<u>19,495</u>	<u>1,791</u>	<u>177</u>	<u>21,463</u>
At 31 December 2011				
Cost	28,546	2,273	226	31,045
Accumulated depreciation	(9,051)	(482)	(49)	(9,582)
Net book amount	<u>19,495</u>	<u>1,791</u>	<u>177</u>	<u>21,463</u>

(b) Company

	Leasehold land and buildings	Furniture and fixtures	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2012				
Opening net book amount	19,495	1,791	177	21,463
Additions	82,281	1,015	929	84,225
Depreciation	(1,310)	(459)	(148)	(1,917)
Disposal	(2,178)	—	—	(2,178)
Closing net book amount	<u>98,288</u>	<u>2,347</u>	<u>958</u>	<u>101,593</u>
At 31 December 2012				
Cost	108,527	3,288	1,155	112,970
Accumulated depreciation	(10,239)	(941)	(197)	(11,377)
Net book amount	<u>98,288</u>	<u>2,347</u>	<u>958</u>	<u>101,593</u>

Leasehold land and buildings are located in Hong Kong.

At 31 December 2012, leasehold land and buildings with carrying amount of HK\$16,703,000 (2011: HK\$19,495,000) were pledged to secure bank borrowings (Note 36).

17 Investment properties

	Group		Company	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>		<i>(Restated)</i>
At fair value				
Beginning of the year	145,069	134,615	80,160	84,750
Currency translation differences	(14)	635	—	—
Addition	407,990	42,772	—	—
Transfer from property, plant and equipment	25,700	—	—	—
Transfer to property, plant and equipment (Note 16)	—	—	—	(3,000)
Fair value gains credited to statement of comprehensive income	34,984	14,219	5,760	24,210
Disposals	(16,969)	(47,172)	(12,750)	(25,800)
End of the year	<u>596,760</u>	<u>145,069</u>	<u>73,170</u>	<u>80,160</u>

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The 2012 revaluations were based on independent assessments made by independent valuers.

The Group's interests in investment properties at their carrying amounts are analysed as follows:

	Group		Company	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
In Hong Kong, held on:				
Leases of between 10 and 50 years	20,800	19,200	—	—
Leases of over 50 years	161,030	121,650	73,170	80,160
Outside Hong Kong, held on:				
Freehold land	28,200	—	—	—
Leases of between 10 and 50 years	383,550	4,219	—	—
Lease of over 50 years	3,180	—	—	—
	596,760	145,069	73,170	80,160

Investment properties outside Hong Kong are mainly located in China.

At 31 December 2012, investment properties of the Group with carrying amount of HK\$129,590,000 (2011: HK\$130,769,000) were pledged to secure bank borrowings (Note 36).

At 31 December 2012, the investment properties of the Company with carrying amount of HK\$73,170,000 (2011: HK\$80,160,000) were pledged to secure bank borrowings (Note 36).

18 Leasehold land and land use rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	Group	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Beginning of the year	—	3,520
Currency translation differences	—	—
Amortisation	—	(264)
Disposal of a subsidiary (Note 41(a))	—	(3,256)
End of the year	<u>—</u>	<u>—</u>

19 Investments in subsidiaries

	Company	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments, at cost:		
Beginning of the year	505,679	585,519
Additions	200,000	—
Disposals	(4,900)	(79,840)
End of the year	<u>700,779</u>	<u>505,679</u>
Less: Provision for impairment	(500)	(5,400)
	<u>700,279</u>	<u>500,279</u>
Market value of listed shares	<u>32</u>	<u>29</u>

Movements in the provision for impairment of investments in subsidiaries are as follows:

	Company	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Beginning of the year	5,400	16,333
Write-off	(4,900)	(10,933)
End of the year	<u>500</u>	<u>5,400</u>

Note:

Particulars of the principal subsidiaries are shown in note 46 to the consolidated financial statements.

20 Interests in jointly controlled entities

	Group	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets:		
Beginning of year	400,192	360,770
Currency translation difference	(333)	18,607
Share of profits less losses continuing operations	<u>8,765</u>	<u>20,815</u>
End of year	<u><u>408,624</u></u>	<u><u>400,192</u></u>

The Group's interests in principal jointly controlled entities, all of which are unlisted, were as follows:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income	108,660	109,511
Expenses	<u>(99,895)</u>	<u>(88,696)</u>
Profit for the year	<u><u>8,765</u></u>	<u><u>20,815</u></u>
Assets		
Long term assets	1,065,633	1,089,058
Current assets	<u>68,515</u>	<u>50,735</u>
	<u>1,134,148</u>	<u>1,139,793</u>
Liabilities		
Long term liabilities	(506,056)	(498,972)
Current liabilities	<u>(219,468)</u>	<u>(240,629)</u>
	<u><u>(725,524)</u></u>	<u><u>(739,601)</u></u>
Net assets	<u><u>408,624</u></u>	<u><u>400,192</u></u>

In 2012, the Group had no unrecognised share of losses (2011: HK\$2.7 million) and accumulated losses. The accumulated losses not recognised by the Group in 2011 for certain jointly controlled entities were approximately HK\$19.0 million.

Notes:

- (a) Details of the principal jointly controlled entity of the Group as at 31 December 2012 are set out in note 47.
- (b) There are no contingent liabilities relating to the Group's interests in the jointly controlled entities, and no contingent liabilities of the jointly controlled entities themselves.

21 Investments in associates

	Group	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Share of net assets:		
Beginning of the year	15,342,260	11,883,395
Share of profits	1,669,412	3,250,605
Currency translation difference	(2,722)	652,940
Capital injection	65,023	77,170
Dividends received from associates	(723,659)	(555,236)
Share of other comprehensive income	76,149	(250,121)
Additional acquired interests:		
- acquisitions	—	206,489
- negative goodwill arising	—	77,018
End of the year	<u>16,426,463</u>	<u>15,342,260</u>
Market value of listed shares	<u>11,361,682</u>	<u>5,207,828</u>
	Company	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Investments, at cost		
Unlisted investments	52,211	52,211
Listed investments in Hong Kong	<u>84</u>	<u>84</u>
	52,295	52,295
Less: Provision for impairment	<u>(52,211)</u>	<u>(52,211)</u>
	<u>84</u>	<u>84</u>
Market value of listed shares	<u>101</u>	<u>94</u>

Interests in associates at 31 December 2012 include goodwill of HK\$68 million (2011: HK\$68 million).

The Group's interests in its principal associates are as follows:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Revenue	<u>5,628,919</u>	<u>6,312,688</u>
Profit for the year	<u>1,669,412</u>	<u>3,250,605</u>
Assets	47,984,509	42,879,483
Liabilities	(31,558,046)	(27,537,223)
Net assets	<u>16,426,463</u>	<u>15,342,260</u>

In 2012, the Group did not recognise share of profits of approximately HK\$12 million during the year (2011: share of losses of approximately HK\$92 million) for certain associates. The accumulated losses not recognised by the Group for these associates were approximately HK\$201 million (2011: approximately HK\$213 million).

Notes:

- (a) All of the interests in associates held by the Group are unlisted except for the investment in Yuexiu Property Company Limited ("YXP") and its subsidiaries with carrying amounts of approximately HK\$13,116 million (2011: HK\$11,982 million) which is listed in The Stock Exchange of Hong Kong Limited.
- (b) At 31 December 2012, the Group's share of certain subsidiaries of YXP had capital commitments in respect of property, plant and equipment of approximately HK\$339.5 million (2011: approximately HK\$894.8 million).
- (c) Details of the principal associates of the Group as at 31 December 2012 are set out in note 48.

22 Available-for-sale financial assets

	Group	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Beginning of the year	172,844	175,326
Currency translation differences	(101)	8,435
Additions	782,987	—
Changes in fair value charged/(credited) to equity	166,375	(10,909)
Transfer to asset classified as held for sale	(248,398)	—
Disposal of a subsidiary (Note 41)	—	(8)
End of the year	<u>873,707</u>	<u>172,844</u>

Available-for-sale financial assets include the following:

	Group	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current portion:		
Equity securities		
- Listed in Hong Kong	871,752	730
Unlisted securities	<u>1,955</u>	<u>172,114</u>
	<u>873,707</u>	<u>172,844</u>
Market value of listed securities	<u>871,752</u>	<u>730</u>

Available-for-sale financial assets are denominated in the following currencies:

	Group	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollars	871,752	730
Renminbi	1,222	171,381
United States dollars	<u>733</u>	<u>733</u>
	<u>873,707</u>	<u>172,844</u>

The balance of unlisted equity securities was stated at fair value, which was valued based on market comparison approach.

23 Inventories

In 2011, the cost of inventories recognised as expenses and included in cost of sales for discontinued operations amounted to approximately HK\$213,922,000 and nil in 2012.

24 Trade receivables, prepayments, deposits and other receivables

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade receivables	71,656	44,415	17,548	17,548
Less: Provision for impairment	(17,548)	(17,548)	(17,548)	(17,548)
Trade receivables - net	54,108	26,867	—	—
Prepayments, deposits and other receivables	1,316,101	1,325,252	8,725	9,006
Less: Non-current portion (Note (a))	(174,388)	(181,915)	—	—
Current portion	<u>1,195,821</u>	<u>1,170,204</u>	<u>8,725</u>	<u>9,006</u>

Notes:

- (a) Non-current receivables have repayment terms of more than twelve months.

Non-current receivables mainly represent the non-current portion of the consideration receivable, discounted at rate of 5.32% in relation to the disposal of the Group's toll operating rights of Xiang Jiang Bridge II, which was completed in 2009. As at 31 December 2012, the total remaining balance of the consideration receivable was HK\$187.1 million (2011: HK\$197.7 million) which will be settled by 19 half yearly installments until the end of concessionary period, i.e. 30 November 2021.

Balances of approximately HK\$167.1 million (2011: HK\$175.2 million), which will be received after 31 December 2013 (2011: 31 December 2012) according to the receipt schedule, are classified as non-current in nature.

The fair value of the consideration receivable is approximately HK\$ 190.9 million (2011: HK\$200.0 million).

- (b) The carrying amounts of trade receivables and other receivables approximate their fair values.

As at 31 December 2012, trade receivables of the Group of approximately HK\$1,009,000 (2011: HK\$1,009,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. These receivables were all aged over 2 years.

- (c) As at 31 December 2012, trade receivables of the Group and the Company of approximately HK\$17,548,000 (2011: HK\$17,548,000) were impaired and fully provided for. The individually impaired receivables are in unexpectedly difficult economic situations. The ageing of these receivables is as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Over 2 years	<u>17,548</u>	<u>17,548</u>	<u>17,548</u>	<u>17,548</u>

There were no movements in the provision for impairment of trade receivables in 2012 and 2011.

(e) The carrying amounts of net trade receivables are denominated in the following currencies:

	<u>Group</u>		<u>Company</u>	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Hong Kong dollars	1,009	1,009	—	—
Renminbi	<u>53,099</u>	<u>25,858</u>	<u>—</u>	<u>—</u>
	<u>54,108</u>	<u>26,867</u>	<u>—</u>	<u>—</u>

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivable mentioned above. The Group does not hold any collateral as security.

25 Financial assets at fair value through profit or loss

	<u>Group</u>	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Equity securities held-for-trading, at fair value:		
- Listed in Hong Kong	<u>60,702</u>	<u>21,775</u>

The fair value of all equity securities is based on their current bid prices in an active market.

Financial assets at fair value through profit or loss of aggregated carrying amount of approximately HK\$23,727,000 (2011: HK\$21,775,000) are equity securities in an associate. They are held for the purpose of selling in the short-term.

26 Pledged bank balances and deposits/cash and cash equivalents/client trust bank balances

	Group		Company	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash at banks and on hand	1,911,896	3,247,364	721,544	1,706,454
Short-term bank deposits	<u>472,544</u>	<u>251,216</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents	2,384,440	3,498,580	721,544	1,706,454
Client trust bank balances	249,390	94,957	—	—
Pledged bank balances and deposits	<u>13,830</u>	<u>14,349</u>	<u>8,347</u>	<u>8,875</u>
	<u>2,647,660</u>	<u>3,607,886</u>	<u>729,891</u>	<u>1,715,329</u>

The amounts are denominated in the following currencies:

	Group		Company	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollars	1,207,141	2,179,248	711,630	1,696,130
Renminbi	1,426,273	1,362,364	4,357	1,076
United States dollars	8,993	61,692	8,683	13,564
Euro	3,752	3,171	3,752	3,171
Others	<u>1,501</u>	<u>1,411</u>	<u>1,469</u>	<u>1,388</u>
	<u>2,647,660</u>	<u>3,607,886</u>	<u>729,891</u>	<u>1,715,329</u>

The carrying amounts of pledged bank balances and deposits, client trust bank balances and cash and cash equivalents approximate their fair values.

As at 31 December 2012 and 2011, all cash and cash equivalents denominated in Renminbi were placed with banks in China. The conversion of these Renminbi denominated balances into foreign currencies was subject to the rules and regulations of foreign exchange control promulgated by the Chinese government.

The average effective interest rate on short-term bank deposits was 0.5% (2011: 0.8%).

The Group's bank deposits are placed with major financial institutions. Counter parties credit risks are carefully reviewed, and none of the bank balances and deposits is exposed to significant credit risk.

The Group maintains trust and segregated accounts with authorised financial institutions to hold clients' deposits arising from normal business transactions. The Group is not allowed to use the clients' monies to settle its own obligations under the Securities and Futures Ordinance (Cap.571).

27 Share capital

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Authorised:		
10,000,000 ordinary shares of HK\$10 each	<u>100,000</u>	<u>100,000</u>
Issued and fully paid:		
7,000,000 ordinary shares of HK\$10 each	<u>70,000</u>	<u>70,000</u>

Share options

The subsidiary, Yuexiu Transport Infrastructure Limited ("YXT"), has been operating a share option scheme since 25 June 2002, under which it may grant options to employees (including Executive Directors of YXT) to subscribe for shares in YXT, subject to a maximum of 10% of the number of shares in issue as at 25 June 2002. The exercise price is determined by the board of directors of YXT and must be at least the highest of (a) the closing price of the shares as stated in The Stock Exchange's daily quotation sheets on the date of grant; (b) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (c) the nominal value of the shares. As at 31 December 2012, no such options had been granted to any person since its adoption.

28 Other reserves

(a) Group

	Share premium HK\$'000	Capital reserve (Note i) HK\$'000	Statutory reserves (Note ii) HK\$'000	Exchange fluctuation reserves HK\$'000	Asset revaluation reserves (Note iii) HK\$'000	Available- for-sale financial assets fair value reserves HK\$'000	Employee share- based compensation reserves HK\$'000	Transaction with non- controlling interests reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 January 2012, as previously reported	7,765,670	(1,880,912)	117,062	1,623,377	577,951	187,668	4,033	(25,943)	6,449,840	14,818,746
Adjustment on change in accounting policy - Adoption of HKAS 12 amendment	—	—	—	(9,307)	—	—	—	—	(39,079)	(48,386)
Balance at 1 January 2012, as restated	7,765,670	(1,880,912)	117,062	1,614,070	577,951	187,668	4,033	(25,943)	6,410,761	14,770,360
Comprehensive income	—	—	—	—	—	—	—	—	1,640,766	1,640,766
Profit for the year	—	—	—	—	—	—	—	—	—	—
Other comprehensive income	—	(868)	(34)	(1,709)	(319)	(32)	—	(9)	—	(2,971)
Currency translation differences	—	—	(189)	(8,419)	—	85,947	(974)	—	(216)	76,149
Share of reserves of associates	—	—	—	—	—	—	—	—	—	—
Available-for-sale financial assets	—	—	—	—	—	—	—	—	—	—
- Changes in fair value	—	—	—	—	—	135,630	—	—	—	135,630
- Deferred tax on fair value gain	—	—	—	—	—	(11,846)	—	—	—	(11,846)
Transfer from property, plant and equipment to investment properties	—	—	—	—	25,599	—	—	—	—	25,599
Transfer	—	—	4,881	—	—	—	—	—	(4,881)	—
Transactions with owners	—	4	—	—	—	—	—	—	—	4
Set up of a subsidiary	—	—	—	—	—	—	—	—	—	—
Balance at 31 December 2012	7,765,670	(1,881,776)	121,720	1,603,942	603,231	397,367	3,059	(25,952)	8,046,430	16,633,691

	Share premium HK\$'000	Capital reserve (Note i) HK\$'000	Statutory reserves (Note ii) HK\$'000	Exchange fluctuation reserves HK\$'000	Asset revaluation reserves (Note iii) HK\$'000	Available- for-sale financial assets fair value reserves HK\$'000	Employee share- based compensation reserves HK\$'000	Transaction with non- controlling interests reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
Balance at 1 January 2011, as previously reported	7,765,670	(2,353,369)	104,980	1,277,204	766,466	390,448	5,371	—	3,338,113	11,294,883
Adjustment on change in accounting policy - Adoption of HKAS 12 amendment	—	—	—	(872)	—	—	—	—	(100,184)	(101,056)
Balance at 1 January 2011, as restated	7,765,670	(2,353,369)	104,980	1,276,332	766,466	390,448	5,371	—	3,237,929	11,193,827
Comprehensive income										
Profit for the year, as restated	—	—	—	—	—	—	—	—	3,170,006	3,170,006
Other comprehensive income										
Currency translation differences, as restated	—	54,612	1,302	642,626	19,913	1,636	—	—	—	720,089
Share of reserves of associates	—	—	624	(49,407)	—	(189,587)	(1,338)	—	(10,413)	(250,121)
Available-for-sale financial assets										
- Changes in fair value	—	—	—	—	—	(6,695)	—	—	—	(6,695)
- Deferred tax on fair value loss	—	—	—	—	—	1,619	—	—	—	1,619
Disposal of a subsidiary										
- Release (Note 41)	—	—	—	(32,422)	—	—	—	—	—	(32,422)
- Transfer	—	41,216	(8,039)	—	1,158	28	—	—	(34,363)	—
Transactions with owners										
Changes in ownership interest in a subsidiary (Note 42)	—	—	—	—	—	—	—	(25,943)	—	(25,943)
Transfer	—	376,629	18,195	(223,059)	(209,586)	(9,781)	—	—	47,602	—
Balance at 31 December 2011, as restated	7,765,670	(1,880,912)	117,062	1,614,070	577,951	187,668	4,033	(25,943)	6,410,761	14,770,360

Note:

- (i) Capital reserve represents the difference between the nominal value of the shares/registered capital of the subsidiaries acquired and the nominal value of the shares issued by the subsidiaries acquired.
- (ii) Statutory reserves represent enterprise expansion and general reserve funds appropriated by the subsidiaries, jointly controlled entities and associates in China. As stipulated by regulations in China, the Company's subsidiaries, jointly controlled entities and associates established and operated in China are required to appropriate a portion of their after-tax profits (after offsetting prior year losses) to the enterprise expansion and general reserve funds, at rates determined by their respective boards of directors.
- (iii) The asset revaluation reserve mainly represents the fair value gain attributable to the 40% equity interest in GNSR Expressway Co., Ltd. previously held by the Group relating to the acquisition of 20% additional equity interest in GNSR Expressway Co., Ltd in 2007.

(b) Company

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011, as previously reported	7,765,670	(7,772,947)	(7,277)
Adjustment on change in accounting policy			
- Adoption of HKAS 12 amendment	<u>—</u>	<u>325</u>	<u>325</u>
At 1 January 2011, as restated	7,765,670	(7,772,622)	(6,952)
Comprehensive income:			
Profit for the year	<u>—</u>	<u>150,199</u>	<u>150,199</u>
At 31 December 2011	<u>7,765,670</u>	<u>(7,622,423)</u>	<u>143,247</u>
At 1 January 2012	7,765,670	(7,622,423)	143,247
Adjustment on change in accounting policy			
- Adoption of HKAS 12 amendment	<u>—</u>	<u>—</u>	<u>—</u>
At 1 January 2012, as restated	7,765,670	(7,622,423)	143,247
Comprehensive income:			
Profit for the year	<u>—</u>	<u>404,061</u>	<u>404,061</u>
At 31 December 2012	<u>7,765,670</u>	<u>(7,218,362)</u>	<u>547,308</u>

29 Borrowings

	Group		Company	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Non-current portion				
Syndicated loans - secured	1,593,583	3,629,333	1,593,583	3,629,333
Long-term bank borrowings - secured	5,024,169	4,188,171	—	—
Long-term bank borrowings - unsecured	3,078,777	1,762,018	1,088,100	1,450,018
Notes payable (Note (c))	1,979,103	988,300	1,979,103	988,300
Loans from non-controlling interests (Note (b))	148,418	144,784	—	—
	11,824,050	10,712,606	4,660,786	6,067,651
	16,325,500	11,619,537	7,947,716	6,236,718
Current portion				
Current portion of syndicated loans - secured	1,972,553	65,520	1,972,553	65,520
Current portion of long-term bank borrowings - secured	436,696	468,521	—	—
Current portion of long-term bank borrowings - unsecured	1,216,710	—	962,256	—
Short-term bank borrowings - unsecured	706,019	—	250,000	—
Loan from non-controlling interests (Note (b))	46,547	216,697	—	—
Loans from related companies - unsecured (Note (a))	102,121	103,547	102,121	103,547
Other loans (Note (d))	20,804	52,646	—	—
	4,501,450	906,931	3,286,930	169,067
	16,325,500	11,619,537	7,947,716	6,236,718

The maturity of borrowings is as follows:

Group:

	Syndicated loans and bank borrowings		Loans from related companies		Other loans		Notes payable		Loans from non-controlling interests	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
With no fixed repayment terms	—	—	102,121	103,547	—	—	—	—	—	—
Within one year	4,331,978	534,041	—	—	20,804	52,646	—	—	46,547	216,697
In the second to fifth year	6,635,050	7,030,342	—	—	—	—	—	—	148,418	144,784
Over five years	3,061,479	2,549,180	—	—	—	—	1,979,103	988,300	—	—
	<u>14,028,507</u>	<u>10,113,563</u>	<u>102,121</u>	<u>103,547</u>	<u>20,804</u>	<u>52,646</u>	<u>1,979,103</u>	<u>988,300</u>	<u>194,965</u>	<u>361,481</u>

Company:

	Syndicated loans and bank borrowings		Loans from related companies		Notes payable	
	2012	2011	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
With no fixed repayment terms	—	—	102,121	103,547	—	—
Within one year	3,184,809	65,520	—	—	—	—
In the second to fifth year	2,681,683	5,079,351	—	—	—	—
Over five years	—	—	—	—	1,979,103	988,300
	<u>5,866,492</u>	<u>5,144,871</u>	<u>102,121</u>	<u>103,547</u>	<u>1,979,103</u>	<u>988,300</u>

The carrying amounts of the borrowings are denominated in the following currencies:

	Group		Company	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollars	8,656,794	6,183,243	7,501,356	6,183,243
Renminbi	6,912,273	5,070,819	—	—
United States dollars	702,958	312,000	392,885	—
Australian dollars	<u>53,475</u>	<u>53,475</u>	<u>53,475</u>	<u>53,475</u>
	<u>16,325,500</u>	<u>11,619,537</u>	<u>7,947,716</u>	<u>6,236,718</u>

The effective interest rates per annum at the end of the reporting period were as follows:

Group:

	2012			2011		
	<i>HK\$</i>	<i>RMB</i>	<i>USD</i>	<i>HK\$</i>	<i>RMB</i>	<i>USD</i>
Syndicated loans and bank borrowings	2.68%	5.93%	2.29%	2.44%	5.89%	—
Loans from related companies	—	—	—	4.50%	—	—
Other loans	—	6.55%	—	—	6.93%	—
Notes payable	6.40%	—	—	6.40%	—	—
Loans from non-controlling interests	—	6.07%	—	—	6.56%	—

Company:

	2012		2011	
	<i>HK\$</i>	<i>USD</i>	<i>HK\$</i>	<i>USD</i>
Syndicated loans and bank borrowings	2.54%	2.21%	2.44%	—
Loans from related companies	—	—	4.50%	—
Notes payable	6.40%	—	6.40%	—

Notes:

- (a) As at 31 December 2012, all loans from related companies are unsecured and interest-free. As at 31 December 2012, the loans from related companies are unsecured and interest-free except for balances of HK\$1,464,000 which was interest-bearing. The balances of HK\$ 53,475,000 (2011: HK\$53,475,000), are denominated in Australian dollars and the remaining balances are denominated in Hong Kong dollars. The carrying amounts of loans from related companies approximate their fair values.
- (b) Loans from non-controlling interests of certain subsidiaries are unsecured and interest bearing in the range of 6.00% to 6.60% except for loans of HK\$148,418,000 (2011: HK\$265,267,000) which are interest-free. The carrying amounts of these interest-free loans approximate their fair values which are calculated based on cash flows discounted at a rate of 6.00% (2011: 6.56%) per annum.
- (c) On 30 December 2011 and 16 April 2012, the Company issued 6.40% notes of HK\$1,000 million respectively. Unless previously redeemed or purchased or cancelled, the notes could be redeemed by the Company at their principal amounts on 30 December 2019 and 16 April 2020 (the maturity dates of the notes).
- (d) Other loan represents short-term borrowings from a third party (2011: two third parties) amounted to HK\$20,804,000 (2011: HK\$52,646,000) which is unsecured (2011: HK\$31,798,070 of the other loans was secured by certain intangible operating rights of the Group). This borrowing is interest bearing at 6.55% (2011: in the range of 6.80% to 7.05%) per annum.
- (e) The carrying amounts of borrowings approximate their fair values.

30 Deferred income tax

Deferred income tax assets and liabilities are offset when there is legally enforceable right to set off current tax assets against current tax liabilities and when deferred income taxes related to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	Group		Company	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>		<i>(Restated)</i>
Deferred tax assets				
- Hong Kong profits tax	<u>2,567</u>	<u>2,590</u>	<u>—</u>	<u>—</u>

	Group		Company	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Deferred tax liabilities				
- Hong Kong profits tax	—	1,924	—	—
- PRC corporate income tax	2,347,791	1,941,238	—	—
- PRC capital gain tax	26,850	26,850	—	—
	<u>2,374,641</u>	<u>1,970,012</u>	<u>—</u>	<u>—</u>

The gross movements on the deferred income tax account are as follows:

	Group		Company	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Beginning of the year	1,967,422	1,813,520	—	(325)
Currency translation differences	(1,604)	87,707	—	—
Tax charged/(credited) charged to statement of comprehensive income (Note 11)	48,159	7,453	—	325
Acquisition of subsidiaries (Note 40)	381,323	119,441	—	—
Tax charged/(credited) to available-for-sale financial assets fair value reserves	19,532	(1,619)	—	—
Transferred to current income tax liabilities	(42,758)	(59,080)	—	—
End of the year	<u>2,372,074</u>	<u>1,967,422</u>	<u>—</u>	<u>—</u>

(a) Group

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets:

	Decelerated depreciation of property, plant and equipment	Tax losses	Provisions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2011, as restated	(2,099)	(1,454)	(2,303)	(5,856)
Credited to consolidated statement of comprehensive income	(10)	(22,109)	—	(22,119)
Credited directly to equity	—	(137)	—	(137)
Exchange difference	—	(328)	—	(328)
At 31 December 2011, as restated	<u>(2,109)</u>	<u>(24,028)</u>	<u>(2,303)</u>	<u>(28,440)</u>
At 1 January 2012, as restated	(2,109)	(24,028)	(2,303)	(28,440)
Credited to consolidated statement of comprehensive income	(768)	18,768	—	18,000
Acquisition of a subsidiary	—	(14,696)	—	(14,696)
Exchange difference	—	2	—	2
At 31 December 2012	<u>(2,877)</u>	<u>(19,954)</u>	<u>(2,303)</u>	<u>(25,134)</u>
		2012	2011	
		<i>HK\$'000</i>	<i>HK\$'000</i>	
			<i>(Restated)</i>	
Deferred income tax assets to be recovered after more than 12 months		(2,681)	(12,129)	
Deferred income tax assets to be recovered within 12 months		<u>(22,453)</u>	<u>(16,311)</u>	
		<u>(25,134)</u>	<u>(28,440)</u>	

Deferred tax liabilities:

	Undistributed profits of subsidiaries and associates <i>HK\$'000</i>	Fair value gains on interest in toll highway arising from acquisition of subsidiaries <i>HK\$'000</i>	Accelerated amortisation of intangible operating rights <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011, as restated	76,744	1,527,890	170,321	304	44,117	1,819,376
Currency translation differences	3,596	74,982	9,457	—	—	88,035
Acquisition of a subsidiary (Note 40(a))	—	119,441	—	—	—	119,441
Charged/(credited) to consolidated statement of comprehensive income	49,081	(56,742)	36,672	2,836	—	31,847
Credited directly to equity	—	—	—	(2,138)	—	(2,138)
Transferred to current income tax liabilities	(59,080)	—	—	—	—	(59,080)
Charged to available-for-sale financial assets fair value reserves	—	—	—	—	(1,619)	(1,619)
At 31 December 2011, as restated	<u>70,341</u>	<u>1,665,571</u>	<u>216,450</u>	<u>1,002</u>	<u>42,498</u>	<u>1,995,862</u>
At 1 January 2012, as restated	70,341	1,665,571	216,450	1,002	42,498	1,995,862
Currency translation differences	(55)	(1,349)	(202)	—	—	(1,606)
Acquisition of a subsidiary	—	396,019	—	—	—	396,019
Charged/(credited) to consolidated statement of comprehensive income	34,655	(60,406)	56,912	(1,002)	—	30,159
Transferred to current income tax liabilities	(42,758)	—	—	—	—	(42,758)
Charged to available-for-sale financial assets fair value reserves	—	—	—	—	19,532	19,532
At 31 December 2012	<u>62,183</u>	<u>1,999,835</u>	<u>273,160</u>	<u>—</u>	<u>62,030</u>	<u>2,397,208</u>

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> (Restated)
Deferred income tax liabilities to be recovered after more than 12 months	2,339,009	1,914,598
Deferred income tax liabilities to be recovered within 12 months	<u>58,199</u>	<u>81,264</u>
	<u>2,397,208</u>	<u>1,995,862</u>

Deferred income tax assets are recognised for tax losses carry-forwards and other temporary differences to the extent that the realisation of the related tax benefit through future taxable profits is probable.

At 31 December 2012, the Group did not recognise deferred income tax assets in respect of tax losses arising from Hong Kong profits tax amounting to approximately HK\$248,941,000 (2011: (restated) HK\$113,894,000) and tax losses arising from China amounting to approximately HK\$751,731,000 (2011: HK\$596,119,000). Details of unrecognised deferred tax assets are as follows:

	Tax losses	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i> <i>(Restated)</i>
Arising in:		
Hong Kong	41,075	18,792
China	<u>187,933</u>	<u>149,030</u>
	<u>229,008</u>	<u>167,822</u>

Tax losses arising from Hong Kong profits have no expiry date while the tax losses from China will expire in 5 years, details of expiry of tax losses is as follows:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
	Expiring in:	
2012	—	48,055
2013	25,408	25,429
2014	64,196	64,249
2015	244,046	244,249
2016	213,960	214,137
2017	<u>204,121</u>	—
	<u>751,731</u>	<u>596,119</u>

(b) Company

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets

	Decelerated depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011, as restated	(325)	—	(325)
Charged/(credited) to statement of comprehensive income	<u>325</u>	<u>(3,392)</u>	<u>(3,067)</u>
At 31 December 2011, as restated	<u>—</u>	<u>(3,392)</u>	<u>(3,392)</u>
At 1 January 2012, as restated	—	(3,392)	(3,392)
Charged to statement of comprehensive income	<u>—</u>	<u>768</u>	<u>768</u>
At 31 December 2012	<u>—</u>	<u>(2,624)</u>	<u>(2,624)</u>

Deferred tax liabilities

	Accelerated depreciation <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2011, as restated	—	—
Charged to statement of comprehensive income	<u>3,392</u>	<u>3,392</u>
At 31 December 2011, as restated	<u>3,392</u>	<u>3,392</u>
At 1 January 2012, as restated	3,392	3,392
Credited to statement of comprehensive income	<u>(768)</u>	<u>(768)</u>
At 31 December 2012	<u>2,624</u>	<u>2,624</u>

At 31 December 2012, the Company did not recognise deferred income tax assets of approximately HK\$29,242,000 (2011(restated): HK\$17,615,000) in respect of tax losses amounting to approximately HK\$177,222,000 (2011(restated): HK\$106,758,000) that can be carried forward against future taxable income. Tax losses arising from Hong Kong profits tax have no expiry date.

31 Trade and other payables and accruals

	Group		Company	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	367,245	187,798	—	—
Other payables and accruals				
- Non-current portion	127,044	—	—	—
- Current portion	<u>1,107,499</u>	<u>688,021</u>	<u>315,503</u>	<u>237,751</u>
Trade and other payables and accruals	<u>1,601,788</u>	<u>875,819</u>	<u>315,503</u>	<u>237,751</u>

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollars	286,694	101,321
Renminbi	<u>80,551</u>	<u>86,477</u>
	<u>367,245</u>	<u>187,798</u>

The amounts include trade payables to clients in trust accounts with authorised institutions of HK\$256 million (2011: HK\$92 million).

Non-current other payables of HK\$127,044,000 have repayment terms of 3 to 5 years and are denominated in Renminbi.

The carrying amounts of trade and other payables approximate their fair values.

32 Amounts due from/to non-controlling interests

The amounts are unsecured, interest-free and repayable on demand. Except for amounts due to non-controlling interests of approximately HK\$2,547,000 which are denominated in Hong Kong dollars, the remaining balances are denominated in Renminbi. The carrying amounts approximate their fair values.

33 Loans and receivables

	Group	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Non-current portion		
Senior secured notes (note (a))	41,021	—
Loans and receivables (note (b))	<u>2,080,202</u>	<u>—</u>
	2,121,223	—
Current portion		
Loans and receivables (note (b))	<u>649,994</u>	<u>—</u>
	<u><u>2,771,217</u></u>	<u><u>—</u></u>

Notes:

- (a) In August 2012, the Group purchased a senior secured notes of approximately HK\$41,021,000 with 10% interest per annum, denominated in United States dollars and with 3 years maturity. The carrying amount approximates their fair values.
- (b) The loans and receivables are interest-bearing in the range of 5.57% to 6.77% per annum and denominated in Renminbi. Except for the amounts of approximate HK\$649,994,000 which will be matured within one year, the remaining balances will be matured in two to ten years. The carrying amounts approximate their fair values.

34 Asset classified as held for sale

In November 2012, one of the subsidiaries of the Group entered a sale and purchase agreement to sell 4.04% equity interest in Guangzhou Securities Co. Ltd, which was previously classified as available-for-sale financial asset, to Guangzhou Yuexiu Finance Holdings Limited, a related party of the Group. The asset has been presented as held for sale following the approval by the Directors of the Company in November 2012. The transaction is conditional and subject to approval by the government authorities. The transaction is not yet completed as at the date of approval of the consolidated financial statements.

35 Notes to the consolidated statement of cash flows

Reconciliation of profit before income tax to net cash generated from operations is as follows:

	2012 HK\$'000	2011 HK\$'000 (Restated)
Profit before income tax from:		
- continuing operations	2,261,192	3,952,874
- discontinued operations	—	(222,488)
	2,261,192	3,730,386
Finance income	(114,761)	(31,503)
Finance costs	693,709	329,462
Share of profits less losses of:		
- jointly controlled entities	(8,765)	(20,815)
- associates	(1,669,412)	(3,250,605)
Dividend income	(2,049)	(6,325)
Negative goodwill arising from further acquisition of an associate	—	(77,018)
Fair value (gain)/loss on financial assets at fair value through profit or loss	(6,692)	6,656
Fair value loss on derivative financial instrument	4,294	6,810
Loss on disposal of a subsidiary, net	—	227,839
Gain on disposal of a jointly controlled entity	(9,171)	—
(Gain)/loss on disposals of financial assets at fair value through profit or loss	(5,521)	1,247
Depreciation of property, plant and equipment	34,171	31,956
Gain on disposals of property, plant and equipment	(672)	(10,472)
Write off of property, plant and equipment	—	721
Fair value gains on investment properties	(34,984)	(14,219)
Loss/(gain) on disposals of investment properties	1,120	(2,747)
Impairment of goodwill	—	1,952
Amortisation of intangible assets	373,886	331,300
Amortisation of leasehold land and land use rights	—	264
Reversal of provision for other receivables	(4,439)	(3,376)
Reversal of provision for amounts due from a related company	(45,896)	(7,711)
Net cash generated from operations before changes in working capital	1,466,010	1,243,802

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Net cash generated from operations before changes in working capital	1,466,010	1,243,802
Changes in working capital:		
Inventories	—	(7,041)
Amounts due from holding company	(983,178)	—
Amounts due from related companies	59,923	(945)
Trade receivables, prepayments and other receivables	476,793	533,393
Loans and receivables	(2,771,217)	—
Client trust bank balances	(154,433)	(23,568)
Trade payables, other payables and accruals	(1,071)	(172,051)
Net cash (used in)/generated from operations	<u>(1,907,173)</u>	<u>1,573,590</u>

36 Securities for banking facilities

The banking facilities granted by banks to the Group and the Company as at 31 December 2012 were secured by the following:

	<u>Group</u>		<u>Company</u>	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment				
- land and buildings	54,462	59,886	16,703	19,495
- construction in progress	360,477	360,775	—	—
Intangible operating rights	16,643,463	13,288,014	—	—
Investment properties	129,590	130,769	73,170	80,160
Pledged bank balances and deposits	<u>13,830</u>	<u>14,349</u>	<u>8,347</u>	<u>8,875</u>

37 Commitments under operating leases

The Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later than one year	11,153	1,806	—	—
Later than one year but no later than five years	14,282	1,447	—	—
	<u>25,435</u>	<u>3,253</u>	<u>—</u>	<u>—</u>

The Group and the Company had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	Group		Company	
	2012	2011	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	4,914	5,591	2,058	2,178
Later than one year but no later than five years	195	4,687	—	2,058
	<u>5,109</u>	<u>10,278</u>	<u>2,058</u>	<u>4,236</u>

38 Capital commitments**Group:**

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Authorised but not contracted for:		
- upgrade and construction of toll expressways under concession arrangements	113,642	222,440
- property, plant and equipment	7,825	248
	<u>121,467</u>	<u>222,688</u>
Contracted but not provided for:		
- upgrade and construction of toll expressways under concession arrangements	170,014	276,534
- property, plant and equipment	853	1,362
	<u>170,867</u>	<u>277,896</u>

On 29 October 2011, the Group entered into an agreement with two independent third parties, whereas the Group conditionally agreed to acquire 100% equity interest in certain companies which operate an expressway in Yanling, the China (the “Targets”). Considerations included cash consideration of approximately HK\$1,309.4 million and certain debts of the Targets due to their shareholders which would be assumed by the Group. The transaction had completed in 2012.

39 Guarantees

Company:

	2012		2011	
	Outstanding <i>HK\$'000</i>	Utilised <i>HK\$'000</i>	Outstanding <i>HK\$'000</i>	Utilised <i>HK\$'000</i>
Guarantees for banking and loan facilities granted to subsidiaries	<u>113,699</u>	<u>111,699</u>	<u>55,889</u>	<u>53,889</u>

40 Business combinations

(a) *Business combinations in 2012*

On 29 October 2011, the Group entered into an agreement with 河南瑞貝卡控股有限責任公司 (Henan Ruibeika Holdings Company Limited¹) and 鄭有志先生 (Mr. Zheng Youzhi¹), each an independent third party to the Group, whereby the Group has conditionally agreed to acquire 100% of the equity interest in 河南瑞貝卡實業有限公司 (Henan Ruibeika Industrial Company Limited¹) and its subsidiary, 鄆陵瑞貝卡高速公路服務有限公司 (Yanling Ruibeika Expressway Services Limited¹) (collectively, the “acquirees”), at a cash consideration of approximately HK\$1,843.2 million. This transaction was completed on 28 May 2012 (the “completion date”).

¹ For identification purpose only

Details of the net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration:	
Cash paid and payable (note)	1,319,287
Indebtedness assumed	<u>537,896</u>
	1,857,183
Fair value of net identifiable assets acquired (see below)	<u>(1,733,712)</u>
Goodwill (note 15)	<u>123,471</u>

Note:

The consideration paid and payable amount is denominated in Hong Kong dollar, amounting to HK\$1,319,287,000.

The goodwill is mainly attributable to the recognition of deferred tax liabilities on fair value gain arising from the acquisition of 100% equity interest of the acquirees.

Recognised amounts of identifiable assets acquired and liabilities assumed were as follows:

	Provisional <i>HK\$'000</i>
Cash and cash equivalents	1,474
Plant, property and equipment (note 16)	7,188
Intangible operating rights (note 15)	3,574,203
Other receivables, deposits and prepayments	608,451
Trade payables and accrued charges	(18,550)
Interest payable	(17,968)
Borrowings	(2,039,763)
Deferred income tax liabilities (note 30)	<u>(381,323)</u>
Net identifiable assets attributable to the 100% equity interest acquired by the Group	<u><u>1,733,712</u></u>

Based on the Group's best estimates, the provisional purchase consideration, fair value of total net identifiable assets acquired and goodwill were approximately HK\$1,843.2 million, HK\$1,734.7 million and HK\$108.5 million respectively. The purchase consideration, fair value of net identifiable assets acquired and goodwill have been adjusted to approximately HK\$1,857.2 million, HK\$1,733.7 million and HK\$123.5 million respectively given additional information was subsequently obtained by the Group.

Analysis of net outflow of cash and cash equivalents in respect of acquisition of a subsidiary

	<i>HK\$'000</i>
Cash paid	(1,168,087)
Cash and bank balances acquired	<u>1,474</u>
	<u><u>(1,166,613)</u></u>

The revenue included in the consolidated income statement since the completion date contributed by the acquirees was approximately HK\$160,779,000. The acquirees also contributed profit of approximately HK\$19,929,000 over the same period.

Had the acquirees been consolidated from 1 January 2012, the consolidated income statement would show pro-forma revenue of approximately HK\$2,295,954,000 and profit before non-controlling interests of approximately HK\$2,281,121,000.

(b) Business combination in 2011

On 21 December 2010, the Group entered into an agreement with 湖南中和威特投資有限公司 (Hunan Zhonghe Weite Investment Company Limited¹) and 武漢奧深科技集團有限公司 (Wuhan Aoshen Technology Group Company Limited¹), each an independent third party, whereby the Group has conditionally agreed to acquire 90% of the equity interest in 湖南長株高速公路開發有限責任公司 (Hunan Changzhu Expressway Development Company Limited¹) at a provisional cash consideration of approximately HKD1,348 million and the consideration has been finalised in December 2011. This transaction was completed on 27 June 2011.

Details of the net assets acquired and goodwill are as follows:

	Finalised amount HK\$'000
Purchase consideration:	
Cash paid and payable	1,141,396
Fair value of net identifiable assets acquired (see below)	<u>(1,129,767)</u>
Goodwill	<u>11,629</u>

The goodwill is mainly attributable to the recognition of deferred tax liabilities on fair value gain arising from the acquisition of 90% equity interest in 湖南長株高速公路開發有限責任公司 (Hunan Changzhu Expressway Development Company Limited¹).

Recognised amounts of identifiable assets acquired and liabilities assumed were as follows:

	Finalised amount HK\$'000
Cash and cash equivalents	6,228
Property, plant and equipment (note 16)	1,959
Intangible operating rights (note 15)	3,803,338
Other receivables, deposits and prepayments	127,866
Trade payables and accrued charges	(307,817)
Amount due to a non-controlling interest	(57,656)
Interest payable	(13,413)
Borrowings	(2,185,765)
Deferred income tax liabilities (note 30)	(119,441)
Net identifiable assets acquired	<u>1,255,299</u>
Net identifiable assets attributable to the 90% equity interest acquired by the Group	<u>1,129,767</u>

Analysis of net outflow of cash and cash equivalents in respect of acquisition of a subsidiary

	2011 HK\$'000
Cash paid	(987,772)
Cash and bank balances acquired	<u>6,228</u>
	<u>(981,544)</u>

41 Discontinued operations in 2011

Loss on disposal of Hi-Watt

In December 2011, the Group disposed of the entire equity interests in Hi-Watt Battery Industry Company Limited (“Hi-Watt”), a subsidiary of the Group, to a third party.

Details of the assets and liabilities of Hi-Watt disposed of and the loss on disposal are as follows:

	2011
	<i>HK\$'000</i>
Assets and liabilities disposed of:	
Intangible assets (Note 15)	93
Property, plant and equipment (Note 16)	82,734
Leasehold land and land use rights (Note 18)	3,256
Available-for-sale financial assets (Note 22)	8
Inventories	118,146
Trade and other receivables	106,235
Cash and cash equivalents	39,718
Amount due to related companies	(2,971)
Amount due to the Group	(86,000)
Trade and other payables	(71,965)
Borrowings	(14,494)
Non-controlling interests	(499)
Net assets retained in Hi-Watt	174,261
Other item disposed	
Amount due to the Group	86,000
Total net assets disposed of	260,261
Consideration:	
Cash received	—
Loss on disposal of a subsidiary	(260,261)
Release of exchange reserve	32,422
Net loss on disposal of Hi-Watt	<u>(227,839)</u>

As a result of the disposal, the Group recognised a loss on disposal of subsidiary of approximately HK\$227,839,000.

Analysis of the result of discontinued operation is as follows:

	2011 <i>HK\$'000</i>
Revenue	243,221
Expenses (Note)	<u>(234,741)</u>
Gain before tax of discontinued operation	8,480
Taxation	<u>(3,129)</u>
Gain from discontinued operation	<u><u>5,351</u></u>
Gain/(loss) from discontinued operation attributable to:	
Owners of the parent	6,717
Non-controlling interests	<u>(1,366)</u>
	<u><u>5,351</u></u>
Operating cash flows	(123,880)
Investing cash flows	3,072
Financing cash flows	<u>96,494</u>
	<u><u>(24,314)</u></u>

Note:

	2011 <i>HK\$'000</i>
Analysed as:	
Auditor's remuneration	—
Depreciation of property, plant and equipment	4,812
Operating lease rentals on land and buildings	264
Interest expense on bank borrowings	70
Salaries and allowances	10,872
Retirement benefits - defined contribution plans	<u>782</u>

42 Changes in ownership interest in a subsidiary without change of control*Acquisition of additional interest in a subsidiary*

On 11 March 2011, the Group acquired an additional 10% equity interest in Cangwu Guihai Cangyu Expressway Co. Ltd (“Cangyu”) at a total consideration of HK\$66.6 million. Cangyu became a wholly owned subsidiary of the Group upon completion of this acquisition. The carrying amount of the non-controlling interest in Cangyu on the date of acquisition was HK\$40.7 million. The Group recognised a decrease in non-controlling interests of HK\$40.7 million and a decrease in equity attributable to shareholders of the Company amounted to HK\$25.9 million. The effect of changes in the ownership interest in Cangyu on the equity attributable to the shareholders of the Company during the period is summarised as follows:

	2011 <i>HK\$'000</i>
Carrying amount of non-controlling interests acquired	40,668
Consideration paid to non-controlling interests	<u>(66,611)</u>
Excess of consideration paid recognised in equity (note 28)	<u>(25,943)</u>

43 Related party transactions*(a) Related parties*

The Board of Directors of the Company considers the Company’s ultimate holding company to be 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited), a company incorporated in the People’s Republic of China.

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(b) Save as disclosed elsewhere in these consolidated financial statements, the Group had the following significant transactions with related parties during the year:

	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income		
- Finance income from associates	30,669	912
- Revenue from associates	4,384	—
Handling fee income from an associate	22,131	—
Administrative service fees paid to an associate	(1,305)	(1,307)
Dividend income received from associates classified under financial assets at fair value through profit or loss	844	552
Operating lease rentals paid to an associate	(3,096)	(3,155)
Rental income received from associate	2,712	2,148
Management fee income received from associate	—	362
Reversal of provision for impairment of amount due from a related company	<u>45,896</u>	<u>7,711</u>

(c) *Balances with related parties*

	Note	Group	
		2012 HK\$'000	2011 HK\$'000
<u>Holding company</u>			
Amount due from holding company	(i)	<u>983,178</u>	<u>—</u>
<u>Jointly controlled entities</u>			
Amount due to a jointly controlled entity	(ii)	<u>(38,823)</u>	<u>(21,586)</u>
<u>Associates</u>			
Amounts due from associates	(iii)	61,159	674,044
Less: Provision for impairment		<u>(41,013)</u>	<u>(41,060)</u>
Net amounts due from associates		<u>20,146</u>	<u>632,984</u>
Amounts due to associates	(iv)	<u>(73,422)</u>	<u>(73,427)</u>
Loans and receivables	(viii)	1,478,981	—
Less: Non-current portion		<u>(1,118,397)</u>	<u>—</u>
Current portion		<u>360,584</u>	<u>—</u>
<u>Related companies</u>			
Amounts due from related companies	(v)	824,343	926,680
Less: Provision for impairment		<u>(608,790)</u>	<u>(697,100)</u>
Net amounts due from related companies	(vi)	<u>215,553</u>	<u>229,580</u>
Loans from related companies	29	(102,121)	(103,547)
Amounts due to related companies	(ii)	<u>(733,861)</u>	<u>(304,585)</u>

	Note	Company	
		2012 HK\$'000	2011 HK\$'000
<u>Holding company</u>			
Amount due from holding company	(i)	983,178	—
<u>Subsidiaries</u>			
Amounts due from subsidiaries	(vii)	8,870,587	6,426,988
Less: Provision for impairment		<u>(1,110,856)</u>	<u>(1,110,855)</u>
Net amounts due from subsidiaries		<u>7,759,731</u>	<u>5,316,133</u>
Amounts due to subsidiaries	(vii)	<u>(1,386,677)</u>	<u>(1,390,443)</u>
<u>Associates</u>			
Amounts due from associates	(iii)	59,983	645,322
Less: Provision for impairment		<u>(40,823)</u>	<u>(40,823)</u>
Net amounts due from associates		<u>19,160</u>	<u>604,499</u>
Amounts due to associates	(iv)	<u>(1,995)</u>	<u>(1,995)</u>
<u>Related companies</u>			
Amounts due from related companies	(v)	735,114	838,574
Less: Provision for impairment		<u>(608,790)</u>	<u>(697,100)</u>
Net amounts due from related companies	(vi)	<u>126,324</u>	<u>141,474</u>
Loans from related companies	29	(102,121)	(103,547)
Amounts due to related companies	(ii)	<u>(217,975)</u>	<u>(293,312)</u>

Notes:

- (i) The amounts are unsecured and interest-free. Except for an amount due from holding company of approximately HK\$983,178,000 which is repayable within one year, the remaining amounts due to the holding company have no fixed repayment terms. The carrying amounts approximate their fair values and denominated in the following currencies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong dollars	544	—	544	—
Renminbi	982,634	—	982,634	—
	<u>983,178</u>	<u>—</u>	<u>983,178</u>	<u>—</u>

- (ii) The amounts are unsecured, interest-free and have no fixed repayment terms. The carrying amounts approximate their fair values and are denominated in the following currencies:

Amount due to a jointly related entity:

	Group	
	2012 HK\$'000	2011 HK\$'000
Renminbi	<u>38,823</u>	<u>21,586</u>

Amounts due to related companies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong dollars	215,277	216,008	205,481	205,481
Renminbi	518,584	88,577	12,494	87,831
	<u>733,861</u>	<u>304,585</u>	<u>217,975</u>	<u>293,312</u>

- (iii) The amounts are unsecured, interest-free and repayable on demand, except for an amount due from an associate in 2011 of approximately HK\$600,000,000 which carries interest at 3.3% per annum, unsecured and repayable within one year (2011: Hong Kong Interbank Offered Rate (“HIBOR”) plus 1% per annum, unsecured and repayable on demand). The carrying amounts approximate their fair values and are denominated in Hong Kong dollars.
- (iv) The amounts are unsecured, interest-free, repayable on demand. The carrying amounts approximate their fair values and are mainly denominated in Hong Kong dollars.

(v) The maximum outstanding balance during the year was:

	Group		Company	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Maximum outstanding	<u>926,680</u>	<u>933,446</u>	<u>838,574</u>	<u>846,756</u>

(vi) The amounts are unsecured, interest-free and have no fixed repayment terms. The carrying amounts approximate their fair values and are denominated in the following currencies:

	Group		Company	
	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Hong Kong dollars	126,529	142,042	126,324	141,474
Renminbi	<u>89,024</u>	<u>87,538</u>	<u>—</u>	<u>—</u>
	<u>215,553</u>	<u>229,580</u>	<u>126,324</u>	<u>141,474</u>

(vii) Except for an amount due from a subsidiary of approximately HK\$100,444,000 (2011: HK\$95,067,000) which carries interest at bank prime rates plus 0.5% per annum (2011: prime rates plus 0.5% per annum), the remaining amounts are interest-free. The balances are unsecured and repayable on demand. The carrying amounts approximate their fair values and are denominated in Hong Kong dollars, except for an amount due from subsidiary of HK\$801,114,000 (2011: nil) which is denominated in Renminbi.

(viii) The amounts are secured and denominated in Renminbi which carry interest at 6.21% to 6.40% per annum. Amounts of approximately HK\$360,584,000 are matured in one year and the remaining amounts are matured in two to five years. The carrying amounts approximate their fair values.

(d) Key management compensation

Key management represents the Board of Directors of the Company. The compensation paid or payable to key management for employee services is shown below:

	2012 <i>HK\$'000</i>	2011 <i>HK\$'000</i>
Other emoluments		
Salaries and allowances	3,904	2,590
Retirement benefits - defined contribution plans	<u>—</u>	<u>98</u>
	<u>3,904</u>	<u>2,688</u>

44 Subsequent events

On 4 January 2013, the Company entered into an agreement to issue 5.65% notes of HK\$1,000 million which will be due for repayment in 2018. The issuance of notes was completed on 4 January 2013.

On 11 January 2013, a US\$2,000 million medium term note programme was established by an associate of the Group. Medium term notes at gross proceeds of approximately US\$847 million were issued by the associate on 16 January 2013.

45 Comparative figures

Certain comparative figures as set out in the consolidated financial statements and the related notes thereto have been reclassified to conform to the current year's presentations.

46 Principal subsidiaries

The Company held shares/interests in the following principal subsidiaries as at 31 December:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Effective percentage of attributable interest held by the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Ablewall Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Investment holding
Active Chance Investment Limited	Hong Kong	2 Ordinary shares at HK\$1 each	100	—	100	—	Investment holding
Asian East Worldwide Limited	British Virgin Islands	50,000 Ordinary share of US\$1 each	—	60.65	—	60.65	Investment holding in Guangzhou Northring Freeway Co., Ltd.
Best Fortune Investments Limited	British Virgin Islands	100 Registered shares of US\$1 each	—	100	—	100	Investment holding
Blow Light Investments Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	100	—	100	—	Property letting
Bosworth International Limited	British Virgin Islands	1 Ordinary share of HK\$1 each	—	100	—	100	Investment holding
Bright Outlook Assets Ltd.	British Virgin Islands	1 Registered share of US\$1 each	—	100	—	100	Property holding
Cangwu Guihai Cangyu Expressway Co. Ltd.	China	Rmb190,925,000	—	60.65	—	60.65	Development and management of Cangyu Expressway in Guangxi

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Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Effective percentage of attributable interest held by the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Cartelle Investment Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
China Century Cement International Limited	Bermuda	120,000 Ordinary shares of US\$0.1 each	100	—	100	—	Investment holding
China Century Oriental Hotel & Tourism Holdings (BVI) Co. Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	100	—	Investment holding
China Century Oriental Hotel & Tourism (Holdings) Co. Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Chinaway Investments Limited	British Virgin Islands	1 Registered share of US\$1 each	100	—	100	—	Investment holding
Choice Tone Ltd.	Hong Kong	1 Ordinary share of HK\$1 each	—	60.65	—	60.65	Investment holding in Tianjin Jinfu Expressway Co., Ltd, Tianjin Langdao Expressway Co., Ltd and Tianjin Yuanhong Expressway Co., Ltd.
City Fame Holdings Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	100	—	Investment holding
Coronation Development Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Property letting
Credit Success Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	—	Investment holding
Daytone Development Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	—	100	—	Investment holding
Dibble Investments Limited	British Virgin Islands	10 Registered shares of US\$1 each	—	100	—	100	Investment holding
Dragon Year Industries Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Investment dealing
Easypower Investments Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding

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			2012		2011		
			Direct	Indirect	Direct	Indirect	
Excellence Enterprises Co., Ltd.	British Virgin Islands	1 Registered share of US\$1 each	100	—	100	—	Investment holding
Faithlink Development Limited	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	100	—	Investment holding
First Dynamic Limited	British Virgin Islands	1 Registered share of US\$1 each	100	—	100	—	Investment holding
Frame Bridge Enterprises Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	60.65	—	60.65	Investment holding
Full Million Engineering Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Glory City Limited	Macau	1 share of MOP22,500 and 1 share of MOP2,500	—	100	—	100	Investment holding
Glory Grand Limited	Macau	1 share of MOP22,500 and 1 share of MOP2,500	—	100	—	—	Investment holding
Glory Light Limited	Macau	1 share of MOP22,500 and 1 share of MOP2,500	—	100	—	—	Investment holding
Glory Rich Limited	Macau	1 share of MOP22,500 and 1 share of MOP2,500	—	100	—	—	Investment holding
Grace Lord Group Limited	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	100	—	Investment holding
Grand Speed Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	60.65	—	60.65	Investment holding in Cangwu Guihai Cangyu Expressway Co., Ltd.
Greater Lucky (H.K.) Company Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Tunnel Management
Greenwood Pacific Limited	British Virgin Islands	1 Registered share of US\$1 each	—	100	—	100	Investment holding

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Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Effective percentage of attributable interest held by the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Goldkemp Investment Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
Goldstock International Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
Guangzhou Chemicals Overseas Corporation	The Republic of Liberia	1 Registered share of US\$1 each	—	100	—	100	Investment holding
Guangzhou Investment Corporation	The Republic of Liberia	1 Bearer share of US\$1 each	—	100	—	100	Investment holding
Guangzhou Northern Second Ring Expressway Company Limited (Note (i))	China	Rmb900,000,000	—	36.39	—	36.39	Development and management of Guangzhou Northern Second Ring Expressway in Guangzhou
Guangzhou Securities Nominees Limited	Hong Kong	100,000 ordinary share of HK\$1 each	—	100	—	100	Investment holding
Guangzhou Suiqiao Development Company Limited	China	Rmb1,000,000	—	60.65	—	60.65	Investment holding in Guangdong Humen Bridge Co., Ltd.
Guangzhou Yue Peng Information Ltd.	China	Rmb260,000,000	—	60.65	—	60.65	Investment holding
Guangzhou Yue Tong Expressway Operations and Management Company	China	Rmb1,000,000	—	60.65	—	60.65	Investment holding
Housemaster Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
Hubei Han Xiao Highway Construction and Operations Company Limited	China	Rmb369,411,000	—	54.59	—	54.59	Development and management of Hubei Han Xiao Expressway
Hunan Changzhu Expressway Development Company Limited	China	Rmb929,328,460	—	54.59	—	54.59	Development and management of Changzhu Expressway in Hunan Province
Jin Dian Investments Limited	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	—	—	Investment holding

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Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Effective percentage of attributable interest held by the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Kinleader Company Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	60.65	—	60.65	Investment holding
Kiu Fung Limited	British Virgin Islands	2 Ordinary share of HK\$1 each	—	60.65	—	60.65	Investment holding
Lintex Development Limited	Hong Kong	1,000 Ordinary shares of HK\$1,000 each	—	79.6	—	79.6	Property investment
Longco Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Property investment
Monnie Luck Limited	British Virgin Islands	20 Registered shares of US\$1 each	—	100	—	100	Investment holding
Morerise Investments Limited	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	—	100	—	100	Project investment
Morrison Pacific Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
Nation Rich Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Investment holding
Novena Pacific Limited	British Virgin Islands	10,000 Ordinary shares of US\$1 each	—	100	—	100	Investment holding
One-up International Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	—	Investment holding
Ontrade Holdings Limited	British Virgin Islands	1 Registered share of US\$1 each	—	100	—	100	Investment holding
Onwell Enterprises Limited	British Virgin Islands	100 Ordinary shares of US\$1 each	—	60.65	—	60.65	Investment holding in Guangdong Qinglian Highway Development Co., Ltd.
Pacific Max Industrial Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	100	—	100	Investment holding
Perfect Goal Development Co., Ltd.	British Virgin Islands	1 Registered share of US\$1 each	—	100	—	100	Investment holding

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Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Effective percentage of attributable interest held by the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Perfect Mount Limited	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	100	—	Investment holding
Pioneer Business Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	60.65	—	60.65	Investment holding in Guangdong Humen Bridge Co., Ltd.
Point Star Limited	Hong Kong	1 Ordinary share of HK\$1 each	—	100	—	100	Investment dealing
Profit Optima Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	60.65	—	60.65	Investment holding
Seaport Development Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
Shaanxi Jinxiu Transport Co., Limited	China	Rmb100,000,000	—	60.65	—	60.65	Development and management of Xian-Lintong Expressway in Shaanxi Province
Shine Wah Worldwide Limited	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
Skyyield Industries Limited	Hong Kong	10,000 Ordinary shares of HK\$1 each	—	60	—	60	Investment holding
Smart Top Enterprises Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	60.65	—	60.65	Property holding
Soundyield Industries Limited (Note i)	Hong Kong	100 Ordinary shares of HK\$1 each	40	36	40	36	Investment holding
Sparco Development Limited	British Virgin Islands	100 Ordinary shares of US\$1 each	—	60.65	—	60.65	Investment holding in Shaanxi Jinxiu Transport Co., Ltd.
Success Bridge Industrial Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	—	100	—	Property holding
Sun Peak Enterprise Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	100	—	100	Investment holding
Super Praise Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	60.65	—	60.65	Investment holding in Guangdong Shantou Bay Bridge Co., Ltd.

APPENDIX III
FINANCIAL INFORMATION OF YUEXIU GROUP

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Effective percentage of attributable interest held by the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Super Unit Investments Limited (Note i)	Hong Kong	10,000 ordinary shares at HK\$1 each	50	50	50	50	Investment holding
Tianjin Jinfu Expressway Company Limited (Note i)	China	Rmb265,200,000	—	36.39	—	36.39	Development and management of Jinbao Expressway in Tianjin
The Conqueror Capital Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	100	—	100	—	Investment holding
Unionwin Investment Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	60.65	—	60.65	Investment holding
Unique Wealth Investment Ltd.	British Virgin Islands	1 Ordinary share of US\$1 each	—	60.65	—	60.65	Investment holding
Wuzhou Yue Xin Chishui Terminal Co., Ltd. (Note i)	China	Rmb171,000,000	—	30.94	—	30.94	Development and management of Wuzhou Port in Guangxi
Yue Xiu Cold Storage & Warehousing Limited	Hong Kong	500 Ordinary shares of HK\$100 each	—	100	—	100	Cold storage and warehousing
Yue Xiu Finance Company Limited	Hong Kong	5,000,000 Ordinary shares of HK\$1 each	100	—	100	—	Money lending and investment holding
Yue Xiu Group Insurance Agents Company Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Insurance agency and management
Yue Xiu Investment Consultants Limited (Formerly known as Southern Investment Limited)	Hong Kong	20,000,000 Ordinary share of HK\$1 each	—	100	—	100	Investment dealing
Yue Xiu HK Property Development Company Limited (Formerly known as Yue Xiu Property Company Limited)	Hong Kong	100 Ordinary shares of HK\$1 each	100	—	100	—	Investment holding
Yue Xiu Hong Kong Limited	Hong Kong	2 Ordinary shares of HK\$1 each	100	—	100	—	Investment holding

APPENDIX III
FINANCIAL INFORMATION OF YUEXIU GROUP

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Effective percentage of attributable interest held by the Company				Principal activities
			2012		2011		
			Direct	Indirect	Direct	Indirect	
Yue Xiu Hotel & Housing Investment Limited	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	100	—	100	—	General trading, investment holding and management services
Yue Xiu Industrial Development (Management) Limited	British Virgin Islands	9 Registered shares of US\$1 each	—	90	—	90	Investment holding
Yue Xiu International Development Limited	Hong Kong	500,000 Ordinary shares of HK\$1 each	100	—	100	—	General trading and investment holding
Yue Xiu Investment (Light Industry) Limited	Hong Kong	2 Ordinary shares of HK\$1 each	—	100	—	100	Property holding
Yue Xiu Property Development Limited	Hong Kong	100,000 Ordinary shares of HK\$100 each	100	—	100	—	Property investment and investment holding
Yue Xiu Securities Company Limited	Hong Kong	80,000,000 Ordinary shares of HK\$1 each	—	100	—	100	Stock brokerage and provision of securities underwriting services
Yue Xiu Securities Holdings Limited	Hong Kong	200,000,000 Ordinary shares of HK\$1 each	100	—	100	—	Investment holding
Yue Xiu Securities Nominees Limited (Note i)	Hong Kong	10,000 Ordinary shares of HK\$1 each	50	50	50	50	Investment holding
Yuexiu (China) Transport Infrastructure Investment Company Limited	China	Rmb1,115,854,875	—	60.65	—	60.65	Investment holding
Yuexiu Transport Infrastructure Limited	Bermuda	1,673,162,295 Ordinary shares of HK\$0.1 each	—	60.65	—	60.65	Investment holding
Yue Wah International Transportation Company Limited	Hong Kong	1,000,000 Ordinary shares of HK\$1 each	80	—	80	—	Investment holding

The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Note:

- (i) The Group's interests in these companies are held through subsidiaries which in turn hold more than 50 percent of the issued voting share capital in these companies.

47 Details of principal jointly controlled entities

The Company held interests in the following principal jointly controlled entity as at 31 December:

Name of jointly controlled entity	Place of incorporation/ establishment	Effective percentage of indirect interest in ownership/ voting power/profit sharing						Principal activities
		2012			2011			
		Ownership	Voting power	Profit sharing	Ownership	Voting power	Profit sharing	
Guangzhou Western Second Ring Expressway Co. Ltd	China	21	20	21	21	20	21	Development and management of Guangzhou Western Second Ring Expressway in Guangzhou

48 Details of principal associates

The Company held interests in the following principal associates as at 31 December:

Name of associate	Place of incorporation/ establishment	Effective percentage holding		Principal activities
		2012	2011	
Dragon Yield Holding Limited	British Virgin Islands	49.75	49.82	Investment holding
Yuexiu Property Company Limited	Hong Kong	49.75	49.82	Investment holding

3. MATERIAL CHANGE

Yuexiu Directors confirm that there are no material changes in the financial or trading position or outlook of Yuexiu Group since December 31, 2012, being the date to which the latest audited accounts of Yuexiu Group were made up.

The following is the full text of a letter and valuation certificate prepared for the purpose of inclusion in the LCHI Circular, the CHB Circular and this Composite Document by Vigers, an independent qualified property valuer, in connection with the valuation as at 25 October 2013 of the Property.

Vigers Appraisal and Consulting Limited

International Property Consultants
10/F, The Grande Building
398 Kwun Tong Road, Kowloon, Hong Kong
Tel: (852) 2342-2000
Fax: (852) 3101-9041
E-mail: gp@vigers.com
www.Vigers.com



4 December 2013

The Board of Directors
Chong Hing Bank Limited (“**CHB**”)
Ground Floor
Chong Hing Bank Centre
24 Des Voeux Road
Central
Central Hong Kong

AND

The Board of Directors
Liu Chong Hing Investment Limited (“**LCHI**”)
25th Floor
Chong Hing Bank Centre
24 Des Voeux Road Central
Central
Hong Kong

(collectively referred to as the “**Companies**”)

Dear Sirs,

In accordance with your joint instructions for us to value on a 100% interest basis of “Chong Hing Bank Centre”, No. 24 Des Voeux Road Central, Central, Hong Kong (the “**Property**”) which is to be transferred by CHB to LCHI, we confirm that we have inspected the Property, made relevant enquiries and investigations as well as obtained such further information as we consider necessary for

the purpose of providing our opinion of market value of the unencumbranced leasehold interest of the Property as at 25 October 2013 (the “**Valuation Date**”). It is our understanding that this valuation report is to be reproduced in circulars to the shareholders of the Companies.

BASIS OF VALUATION

Our valuation is our opinion of market value of the Property which is defined as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”. Our valuation has been prepared in accordance with The HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors (“**HKIS**”), relevant provisions in the Companies Ordinance, The Codes on Takeovers and Mergers and Share Repurchases published by the Securities and Futures Commission and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Main Board) published by The Stock Exchange of Hong Kong Limited. Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

VALUATION APPROACH

We have valued the tenanted portions of the Property on the basis of capitalization of net rental income derived from the existing tenancies with allowance onto the reversionary interest by making reference to comparable market transactions. In valuing the portions of the Property which are occupied by the owner, we have employed the direct comparison method whereby comparisons based on transactions on actual sales of comparable properties have been made. Comparable properties with similar character, location, sizes and so on are analyzed and carefully weighed against all respective advantages and disadvantages of the Property in order to arrive at a fair comparison of value.

TITLE INVESTIGATION

We have conducted land search for the Property at the Land Registry but we have not searched any original documents to ascertain ownership nor to verify any lease amendments which may not appear on the copies handed to us. We are not aware of any investigations, notices, pending litigation, breaches of law, title defect, easement or rights of way affecting the Property and our valuation has been made on the assumption that there is none.

VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the Property can be sold in the prevailing market in existing state without the effect of any deferred term contract, joint venture, management agreement or any other similar arrangement which may serve to affect the value of the Property, unless otherwise noted or specified. In addition, no account has been taken into of any option or right of pre-emption concerning or affecting the sale of the Property.

In our valuation, we have assumed that the owner of the Property has free and uninterrupted rights to use and assign the Property during the whole of the unexpired lease term granted subject to the payment of usual Government Rent. Our valuation for the Property is carried out on the basis of cash purchase, and no allowance has been made for interest and/or funding cost in relation to the sale or purchase of the Property.

We had carried out on-site inspection to the Property but no soil investigation has been carried out to determine the suitability of ground conditions or services for any property development erected or to be erected on the Property. Our valuation has been carried out on the assumption that these aspects are satisfactory. We have also assumed that all necessary consents, approvals and licences from relevant government authorities have been or will be granted without onerous conditions or delay.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property or any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, we have assumed that the Property is free from any encumbrances, restrictions and outgoings of an onerous nature which may serve to affect the value of the Property.

We have not carried out on-site measurement to verify the correctness of the site and floor areas in respect of the Property but we have assumed that the site and floor areas shown on the documents handed to us are accurate and reliable.

VALUATION CONSIDERATION

Inspection to the Property, including the exterior and portion of the interior thereof, was carried out by Mr. David W. I. Cheung *MRICS MHKIS RPS(GP) CREA* and Mr. Eric W. L. Tang *MRICS* on 16 September 2013. During the course of our inspection, we did not note any serious defect.

However, no structural survey nor test on any of the services has been made and we are therefore unable to report as to whether the Property is free from rot, infestation or other structural or non-structural defect. Having examined all relevant documents, we have relied to a considerable extent on the information given by CHB, particularly in respect of planning approvals or statutory notices, easements, site areas, floor areas, occupancy status and in the identification of the Property.

Unless otherwise stated, all dimensions, measurements and areas included in the attached Valuation Certificate are based on the information contained in the documents provided to us by CHB and are therefore approximations. We have had no reason to doubt the truth, accuracy or completeness of the information made available to us.

REMARKS

We declare hereby that we are independent to the Companies and we are not interested directly or indirectly in any share in either Company or in any member of either Company. We do not have any right or option whether legally enforceable or not to subscribe for or to nominate persons to subscribe for any share in either Companies or in any member of either Company. We confirm that we have no material connection with any of the other parties to the proposed disposal by CHB to LCHI of the Property or with any of the parties to any related transactions.

The potential tax liabilities which would arise on the disposal of the Property include profit tax (16.5% on profits). As advised by LCHI, the likelihood of such potential profit tax liabilities being crystallized is remote for LCHI as LCHI has no intention to further dispose of the Property.

Unless otherwise stated, all monetary amounts stated herein are denoted in the currency of Hong Kong Dollars (“**HK\$**”), the lawful currency of Hong Kong.

We enclose herewith our Valuation Certificate.

Yours faithfully,
For and on behalf of

VIGERS APPRAISAL AND CONSULTING LIMITED

David W. I. Cheung
MRICS MHKIS RPS(GP) CREA
Executive Director

Eric W. L. Tang
MRICS
Associate Director

Note: Mr. David W. I. Cheung is a Registered Professional Surveyor in General Practice Division with over 30 years’ valuation experience on property in various regions including Hong Kong, Macao, the PRC, Taiwan, Japan, the United Kingdom, Canada and the United States of America, who has been vetted on the list of property valuers for undertaking valuations for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers published by The Hong Kong Institute of Surveyors, and is suitably qualified for undertaking valuations relating to listing exercises. Mr. Cheung has 7-year of experience with Vigers Appraisal and Consulting Limited.

Mr. Eric W. L. Tang is a Member of the Royal Institution of Chartered Surveyors with over 10 years’ valuation experience on property in various regions including Hong Kong, Macao and the PRC. Mr. Tang has 6-year of experience with Vigers Appraisal and Consulting Limited.

VALUATION CERTIFICATE

Property held by CHB for owner occupation and investment purposes in Hong Kong

Property	General Description	Occupancy Status	Market Value in Existing State as at 25 October 2013
<p>“Chong Hing Bank Centre”, No. 24 Des Voeux Road Central, Central, Hong Kong</p> <p>All those shares or parts registered in the Land Registry as The Remaining Portion of Section A of Marine Lot No. 62</p>	<p>Located in the downtown prime commercial area on Hong Kong Island and completed in 2006, “Chong Hing Bank Centre” (the “Property”) comprises a 24-storey office building erected above the retail premises on ground floor and first floor.</p> <p>According to a copy of a set of approved General Building Plans, the Property has a site area of approximately 7,087 square feet (658.404 square metres) and a total plot ratio gross floor area of approximately 108,141 square feet (10,046.596 square metres).</p> <p>The Property is held under Government Lease for a term of 979 years commencing on 25 June 1863 subject to the non-offensive trade clauses with Government Rent payable of HK\$128 per annum.</p>	<p>Upon our inspection and according to the information provided by CHB, 2nd floor, portion of 3rd floor, 5th floor, 21st floor, 22nd floor, 23rd floor and 25th floor of the Property have been leased to its wholly-owned subsidiaries and ultimate holding company at an aggregate monthly rent of HK\$1,385,850 (exclusive of Government Rent, Rates and management fees) with the last expiry date on 30 April 2015; whilst the remainder of the Property are owner-occupied as its head office.</p>	<p>HK\$2,230,000,000</p>

Notes:

1. The current registered owner of the Property is “LIU CHONG HING BANK LIMITED” (the former name of CHB) vide Memorial No. 06031101470029 dated 14 February 2006.
2. According to the recent land registration record, the Property is subject to the following salient encumbrances:
 - i. No-objection Letter from The Government of The HKSAR by the District Lands Officer / Hong Kong West re ML 62 S.A vide Memorial No. UB9007751 dated 1 September 2003; and
 - ii. Undertaking Letter from Right Way Investments Limited to The Building Authority re ML 62 S.A vide Memorial No. 05042201810027 dated 10 January 2005.
3. The Property lies on an area zoned as “Commercial” under Approved Central District Outline Zoning Plan (No.: S/H4/14).

4. The Property is situated in Central District, the central business district area of Hong Kong. Developments in the area comprise mainly medium to high-rise commercial buildings and bank headquarters. The average selling prices of ground floor retail shops in Central District vary from about HK\$85,000 to HK\$140,000 per square foot on saleable area basis; whilst the average selling prices of office property in Central District vary from about HK\$16,900 to HK\$21,000 per square foot on gross floor area basis.

5. Inspection to the Property, including the exterior and portion of the interior thereof, was carried out by Mr. David W. I. Cheung *MRICS MHKIS RPS(GP) CREA* and Mr. Eric W. L. Tang *MRICS* on 16 September 2013. During the course of our inspection, no serious defect was noted; and the condition of the Property is considered to be reasonable. The Property is mainly finished with curtain walling; and the majority of the interior of the Property are finished with carpeted floor, panelled walls and suspended ceiling. Supply of electricity, water and drainage are available. Centralized air-conditioning system and sprinkler system are installed throughout the Property. Neither structural survey nor test on any services was made; and hence we are unable to report as to whether the Property is free from rot, infestation or other structural or non-structural defect.

1. RESPONSIBILITY STATEMENT

This Composite Document includes particulars given in compliance with the Code for the purpose of giving information with regard to the Partial Offer, the Property Agreement, Yuexiu, the Offeror and CHB.

The information contained in this Composite Document relating to Yuexiu has been supplied by Yuexiu. As at the date of this Composite Document, the directors of Yuexiu are Mr. Zhang Zhaoxing, Mr. Zhu Chunxiu, Mr. Liang Ningguang, Mr. Wu Shanghui, Mr. Zhou Qianding, Mr. Li Xinchun and Mr. He Zhifeng. The issue of this Composite Document has been approved by the directors of Yuexiu, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to the Offeror, CHB or any of their associates or any parties acting in concert with any of them) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by the Offeror, CHB or any of their associates or parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement in this Composite Document misleading.

The information contained in this Composite Document relating to the Offeror has been supplied by the Offeror. As at the date of this Composite Document, the directors of the Offeror are Mr. Zhang Zhaoxing, Mr. Zhu Chunxiu, Mr. Wang Shuhui, Mr. Ou Junming and Mr. Lee Ka Lun. The issue of this Composite Document has been approved by the directors of the Offeror, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to Yuexiu, CHB or any of their associates or any parties acting in concert with any of them), and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by Yuexiu, CHB or any of their associates or parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document, the omission of which would make any statement in this Composite Document misleading.

The information contained in this Composite Document relating to CHB has been supplied by CHB. As at the date of this Composite Document, the directors of CHB are Dr. Liu Lit Mo, Mr. Liu Lit Chi, Mr. Lau Wai Man, Mr. Don Tit Shing Liu, Mr. Wilfred Chun Ning Liu, Mr. He Jiale, Mr. Hidekazu Horikoshi, Mr. Christopher Kwun Shing Liu, Mr. Alfred Cheuk Yu Chow, Mr. Meng Qinghui, Dr. Robin Yau Hing Chan, Mr. Timothy George Freshwater, Mr. Wanchai Chiranakhorn, Mr. Cheng Yuk Wo and Mr. Andrew Chiu Cheung Ma. The issue of this Composite Document has been approved by the CHB Directors, who jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than information relating to Yuexiu, the Offeror or any of their associates or any parties acting in concert with any of them) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Composite Document (other than opinions expressed by Yuexiu, the Offeror or any of their associates or parties acting in concert with any of them) have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any statement in this Composite Document misleading.

SHARE CAPITAL OF CHB

As at the Latest Practicable Date, the authorised and issued share capital of CHB were as follows:

	Number of shares	Amounts <i>HK\$</i>
Ordinary shares of HK\$0.50 each		
<i>Authorised:</i>		
Balance as at the Latest Practicable Date	600,000,000	300,000,000
<i>Issued and fully paid:</i>		
Balance as at 31 December 2012	435,000,000	217,500,000
Shares issued since 31 December 2012	nil	nil
Balance as at the Latest Practicable Date	435,000,000	217,500,000

All of the CHB Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. The CHB Shares are listed on the Main Board of the Stock Exchange and no CHB Shares are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, CHB did not have in issue any outstanding options, warrants, derivatives or securities that carried a right to subscribe for or which were convertible into CHB Shares.

DISCLOSURE OF INTERESTS**(a) Interest of the Offeror, its directors and parties acting in concert with it, in CHB**

As at the Latest Practicable Date, none of the Offeror, its directors and parties acting in concert with it owned or controlled or had any interest in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB.

(b) Interests of CHB Directors in CHB

As at the Latest Practicable Date, the interests and short positions of CHB Directors and the chief executive of CHB in the securities of CHB which were required to be notified to CHB and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have been taken under such provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules or which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

(i) Long/Short position in CHB Shares or underlying CHB Shares

Name of CHB Director	Long/Short position	Number of ordinary shares held			Total interests	Total interests as approximate % of the relevant issued share capital
		Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of controlled corporation)		
Dr. Liu Lit Mo <i>Chairman</i>	Long	1,002,450	—	258,359,628 <i>(Note 1)</i>	259,362,078	59.62%
	Short	—	—	218,359,628 <i>(Note 4)</i>	218,359,628	50.20%
Mr. Liu Lit Chi <i>Deputy Chairman and Managing Director</i>	Long	313,248	—	260,622,839 <i>(Note 1&2)</i>	260,936,087	59.99%
	Short	—	—	220,622,839 <i>(Notes 4&5)</i>	220,622,839	50.72%
Mr. Don Tit Shing Liu <i>Deputy Chief Executive Officer</i>	Long	15,000	—	—	15,000	0.003%
Dr. Robin Yau Hing Chan	Long	48,400	—	1,018,000 <i>(Note 3)</i>	1,066,400	0.25%
Mr. Timothy George Freshwater	Long	396	—	—	396	0.00009%

Notes:

1. 258,359,628 CHB Shares are attributed as follows:
 - i. 218,359,628 CHB Shares held by LCHI's wholly-owned subsidiary, LCH Estate, in which each of Dr. Liu Lit Mo and Mr. Liu Lit Chi is deemed under the SFO to be interested through L. Holdings, a private company holding approximately 43.81% of the issued and fully-paid share capital in LCHI; and
 - ii. 40,000,000 CHB Shares held by BTMU. Pursuant to an agreement in 1994, BTMU has granted an option to LCH Estate exercisable at any time during the term of that agreement to purchase all such CHB Shares and BTMU is required to offer to sell all such CHB Shares to LCH Estate in certain circumstances. By virtue of the interests of Dr. Liu Lit Mo and Mr. Liu Lit Chi in LCH Estate through L. Holdings, each of them is deemed under the SFO to be interested in such CHB Shares.
2. 2,263,211 CHB Shares are held by Alba, 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 CHB Shares.
3. 1,018,000 CHB Shares 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 Yau Hing Chan's directions or instructions.
4. 218,359,628 CHB Shares are the LCH Estate IU Shares, in which each of Dr. Liu Lit Mo and Mr. Liu Lit Chi is deemed under the SFO to be interested through L. Holdings. On 25 October 2013, Yuexiu, LCHI, LCH Estate, L. Holdings and Alba entered into the LCHI Irrevocable Undertaking, under which, among other things, LCHI and LCH Estate have irrevocably undertaken, jointly and severally, to Yuexiu that the Partial Offer will be accepted by LCH Estate in respect of all of the LCH Estate IU Shares not later than three business days after the date of despatch of the Composite Document and that LCH Estate will not withdraw such acceptance.
5. 220,622,839 CHB Shares are the IU Shares, which comprise (i) the LCH Estate IU Shares in which each of Dr. Liu Lit Mo and Mr. Liu Lit Chi is deemed under the SFO to be interested through L. Holdings; and (ii) 2,263,211 CHB Shares held by Alba, which is a substantial shareholder of LCHI and of which Mr. Liu Lit Chi and his associates (as defined in the Listing Rules) are shareholders. Pursuant to the LCHI Irrevocable Undertaking, Alba has irrevocably undertaken to Yuexiu that the Partial Offer will be accepted by Alba in respect of all of the Shares held by it not later than three business days after the date of despatch of the Composite Document and that Alba will not withdraw such acceptance.

Name of CHB Director	Long/Short position	Amount of debentures			Total interests
		Personal interests (held as beneficial owner)	Family interests (interests of spouse or child under 18)	Corporate interests (interests of controlled corporation)	
Mr. Christopher Kwun Shing Liu	Long	US\$200,000 6% notes due 2020 (Note 1)	—	—	US\$200,000 6% notes due 2020

Note:

1. The notes were issued by CHB pursuant to the offering circular dated 28 October 2010 and were listed on the Stock Exchange (stock code: 4327).

Save as disclosed above, none of the CHB Directors had any interests in the relevant securities (as defined under Note 4 to Rule 22 of the Code) of CHB.

(c) Other disclosures

- (i) As at the Latest Practicable Date and prior to the posting of this Composite Document:
- (A) LCHI and LCH Estate have irrevocably undertaken, jointly and severally, to Yuexiu that the Partial Offer will be accepted by LCH Estate in respect of all of the LCH Estate IU Shares held by LCH Estate, being 218,359,628 CHB Shares and representing 50.20% of the issued share capital of CHB.
 - (B) Alba has irrevocably undertaken to Yuexiu that the Partial Offer will be accepted by Alba in respect of all of the CHB Shares held by it, being 2,263,211 CHB Shares and representing 0.52% of the issued share capital of CHB.
- (ii) Save as disclosed in paragraph (c)(i) above, as at the Latest Practicable Date:
- (A) No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with the Offeror or any parties acting in concert with it.
 - (B) None of the Offeror and any parties acting in concert with it had borrowed or lent in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB, save for any borrowed CHB Shares which had been either on-lent or sold.
 - (C) None of the subsidiaries of CHB, any pension funds of the CHB Group and any adviser to CHB as specified in class (2) of the definition of “associate” under the Code (but excluding exempt principal traders) owned or controlled any of the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB.
 - (D) Save for the Deed of Agreement entered into between CHB and Yuexiu in respect of inducement fees, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with CHB or with any person who was an associate of CHB by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Code.
 - (E) No relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with CHB.
 - (F) Apart from Dr. Robin Yau Hing Chan who did not intend to accept the Partial Offer in respect of the 48,400 shares in which he is personally interested as beneficial owner, each of the CHB Directors who had a beneficial holding in CHB Shares had indicated that he intended to accept the Partial Offer in respect of his own beneficial ownership in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB.

- (G) Neither CHB nor any of the CHB Directors had borrowed or lent any of the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB, save for any borrowed CHB Shares which had been either on-lent or sold.

(d) Interests of CHB and the CHB Directors in the Offeror

As at the Latest Practicable Date, none of CHB and the CHB Directors had any interest in the shares of the Offeror.

DEALINGS IN SECURITIES

The Offeror and parties acting in concert with it undertake that they will not acquire any voting rights in CHB during the Offer Period.

(a) During the Relevant Period:

- (i) None of the Offeror, its directors and parties acting in concert with the Offeror had dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB.
- (ii) No person who had irrevocably committed themselves to accept or reject the Partial Offer had dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB.
- (iii) None of the Offeror and parties acting in concert with the Offeror who had borrowed or lent the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB, save for any borrowed CHB Shares which had been either on-lent or sold, had dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB.
- (iv) None of the CHB Directors had dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB.
- (v) Neither CHB nor any of the CHB Directors had dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of the Offeror.

(b) During the Offer Period and up to the Latest Practicable Date:

- (i) None of the subsidiaries of CHB, any pension funds of the CHB Group and any adviser to CHB as specified in class (2) of the definition of “associate” under the Code (but excluding exempt principal traders) had dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB.

- (ii) Save for the Deed of Agreement entered into between CHB and Yuexiu in respect of inducement fees, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Code with CHB or with any person who was an associate of CHB by virtue of classes (1), (2), (3) and (4) of the definition of “associate” under the Code.
- (iii) No fund manager (other than exempt fund managers) connected with CHB who manage shareholdings in CHB on a discretionary basis had dealt for value in the relevant securities (as defined in Note 4 to Rule 22 of the Code) of CHB.

ARRANGEMENTS AFFECTING OR RELATING TO CHB DIRECTORS

As at the Latest Practicable Date:

- (a) there was no arrangement whereby any CHB Director would be given any benefit as compensation for loss of office or otherwise in connection with the Partial Offer;
- (b) no agreement or arrangement existed between any CHB Director and any other person which was conditional on or dependent upon the outcome of the Partial Offer or otherwise connected with the Partial Offer;
- (c) except the LCHI Irrevocable Undertaking, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it on the one hand, and any CHB Director, recent CHB Director, CHB Shareholder or recent CHB Shareholder on the other hand, having any connection with or dependence upon the Partial Offer; and
- (d) except the LCHI Irrevocable Undertaking, there was no material contract entered into by the Offeror in which any CHB Director had a material personal interest.

CHB DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the CHB Directors had entered into any service contracts with CHB or any of its subsidiaries or associated companies which (i) (including both continuous and fixed-term contracts) have been entered into or amended within 6 months preceding the commencement of the Offer Period; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed-term contracts with more than 12 months to run irrespective of the notice period.

MARKET PRICES

The table below shows the closing price per CHB Share as quoted on the Stock Exchange on (a) the Latest Practicable Date; (b) the Last Trading Date; (c) the last trading day immediately preceding the date of the first joint announcement issued by LCHI and CHB on 8 August 2013 in response to media reports regarding a possible disposal of interests in CHB; and (d) the last trading day of each of the calendar months during the Relevant Period.

Date	Closing price per CHB Share <i>HK\$</i>
28 February 2013	15.94
28 March 2013	19.04
30 April 2013	20.60
31 May 2013	18.90
28 June 2013	21.40
31 July 2013	23.10
6 August 2013 (the last trading day immediately preceding the date of the first joint announcement issued by LCHI and CHB on 8 August 2013)	22.45
30 August 2013	28.90
30 September 2013	32.95
Last Trading Date	37.40
31 October 2013	35.05
29 November 2013	34.95
31 December 2013	34.70
Latest Practicable Date	35.40

HIGHEST AND LOWEST SHARE PRICE

During the Relevant Period, the highest closing price of CHB Shares as quoted on the Stock Exchange was HK\$37.40 per CHB Share on 23 October 2013, and the lowest closing price of CHB Shares as quoted on the Stock Exchange was HK\$15.58 per CHB Share on 4 March 2013.

LITIGATION

As at the Latest Practicable Date, none of the members of the CHB Group was engaged in any litigation or arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the CHB Directors to be pending or threatened by or against any member of the CHB Group.

MATERIAL CONTRACT

The following contract (being contract not entered into in the ordinary course of business carried on or intended to be carried on by the CHB Group) has been entered into by the CHB Group within the two years immediately preceding the commencement of the Offer Period, and up to and including the Latest Practicable Date, which is or may be material:

The Property Agreement.

EXPERTS AND CONSENTS

The following are the names and qualifications of each of the experts who has been named in this Composite Document or who has given opinion or advice, which is contained in or referred to in this Composite Document:

Name	Qualification
Nomura	A corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 5 (advising on futures contracts) and Type 6 (advising on corporate finance) regulated activities under the SFO
Somerley	A corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
Vigers Appraisal and Consulting Limited	Professional property valuer

Each of Nomura, Somerley and Vigers Appraisal and Consulting Limited has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion in this Composite Document of the opinion or letter (as the case may be) and references to its name in the form and context in which it is included.

MISCELLANEOUS

The registered office of Yuexiu is at 26/F, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.

The registered office of the Offeror is at 28/F, Yue Xiu Building, 160 Lockhart Road, Wanchai, Hong Kong.

The registered office of CHB is at Ground Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong.

The Offeror is a wholly owned subsidiary of Yuexiu. Yuexiu is a wholly owned subsidiary of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited*), which is a State-owned limited liability company incorporated in the PRC beneficially wholly owned by the GMPG.

Nomura is making the Partial Offer for and on behalf of the Offeror. The address of Nomura is at 30th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The CHB Independent Financial Adviser is Somerley Limited whose address is at 20th Floor, China Building, 29 Queen's Road Central, Hong Kong.

The share registrar and transfer office of CHB is Computershare Hong Kong Investor Services Limited whose address is at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

As at the Latest Practicable Date, the Offeror had no agreement or understanding to transfer, charge or pledge any of the CHB Shares acquired pursuant to the Partial Offer to any other persons.

As at the Latest Practicable Date, save for the LCHI Irrevocable Undertaking and the Deed of Agreement, there was no agreement or arrangement to which the Offeror or any person acting in concert with it is a party which relates to the circumstances in which it may or may not invoke or seek to invoke the Pre-Condition or a Condition.

Yuexiu and the Offeror confirm that they do not intend that the payment of interest on, repayment of or security for any liability (contingent or otherwise) will depend to any significant extent on the business of the CHB Group.

In case of inconsistency, the English text of this Composite Document and the Form of Acceptance shall prevail over the Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours (except public holidays) at the office of CHB on the 19th Floor, Chong Hing Bank Centre, 24 Des Voeux Road Central, Hong Kong; (ii) on the website of CHB at www.chbank.com; and (iii) on the website of the SFC at www.sfc.hk, from the date of this Composite Document until the end of the Offer Period:

- (1) the memorandum and articles of association of Yuexiu;
- (2) the memorandum and articles of association of the Offeror;
- (3) the memorandum and articles of association of CHB;

- (4) the annual reports of CHB for the two financial years ended 31 December 2011 and 2012;
- (5) the directors' report and consolidated financial statements of Yuexiu for the two financial years ended 2011 and 2012;
- (6) the letter from Nomura, the text of which is set out on pages 11 to 30 of this Composite Document;
- (7) the letter from the CHB Board, the text of which is set out on pages 31 to 39 of this Composite Document;
- (8) the letter from the CHB Code Independent Board Committee, the text of which is set out on pages 40 to 41 of this Composite Document;
- (9) the letter from Somerley, the text of which is set out on pages 42 to 70 of this Composite Document;
- (10) the valuation report in relation to the Property prepared by Vigers Appraisal and Consulting Limited, the report of which is set out in Appendix IV to this Composite Document;
- (11) the written consents as referred to in the section headed "Experts and Consents" in this Appendix;
- (12) the LCHI Irrevocable Undertaking;
- (13) the Deed of Agreement;
- (14) the Property Agreement as referred to in the section headed "Material Contract" in this Appendix;
- (15) the Facility Agreement;
- (16) the LCHI Circular; and
- (17) the CHB Circular.