
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Fubon Bank (Hong Kong) Limited, you should at once hand this document and the accompanying forms of proxy and Form of Acceptance to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee. This document should be read in conjunction with the accompanying Form of Acceptance, the contents of which form part of the terms of the Preference Share Offer (as defined herein) contained herein.

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FUBON FINANCIAL HOLDING CO., LTD.



FUBON BANK (HONG KONG) LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 636)

PROPOSAL TO PRIVATISE THE ORDINARY SHARE CAPITAL OF FUBON BANK (HONG KONG) LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE

VOLUNTARY CONDITIONAL CASH OFFER BY
UBS AG, HONG KONG BRANCH ON BEHALF OF FUBON FINANCIAL HOLDING CO., LTD.
TO ACQUIRE ALL THE ISSUED PREFERENCE SHARES OF FUBON BANK (HONG KONG) LIMITED
(OTHER THAN THOSE ALREADY OWNED BY FUBON FINANCIAL HOLDING CO., LTD.
OR PARTIES ACTING IN CONCERT WITH IT)

PROPOSED WITHDRAWAL OF LISTING OF FUBON BANK (HONG KONG) LIMITED

Financial adviser to Fubon Financial Holding Co., Ltd.



UBS AG, Hong Kong Branch

Independent financial adviser to the Independent Board Committee of
Fubon Bank (Hong Kong) Limited



CLSA Equity Capital Markets Limited

Capitalised terms used hereunder shall have the same meanings as defined in this document. A letter from the Board is set out on pages 15 to 25 of this document. A letter from UBS AG, Hong Kong Branch is set out on pages 26 to 35 of this document. The Explanatory Statement is set out on pages 67 to 83 of this document. A letter from the Independent Board Committee containing its advice to the Minority Shareholders in relation to the Scheme Proposal and to the Preference Shareholders in relation to the Preference Share Offer is set out on pages 36 to 37 of this document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in relation to the Scheme Proposal and the Preference Share Offer is set out on pages 38 to 66 of this document. **The actions to be taken by the Minority Shareholders and the Preference Shareholders are set out on pages 1 to 5 of this document.** The procedures for acceptance and settlement of the Preference Share Offer and other related information are set out in the letter from UBS AG, Hong Kong Branch in this document and in the accompanying Form of Acceptance. Acceptance of the Preference Share Offer should be received by the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:00 p.m. on Wednesday, 22 June 2011 (or such later time and date as the Offeror may decide and announce in accordance with the Takeovers Code).

Notices convening the Court Meeting and the Extraordinary General Meeting to be held in Hong Kong on Friday, 29 April 2011 are set out on pages CM-1 to EGM-3 of this document. **Whether or not you are able to attend the Court Meeting or the Extraordinary General Meeting or any adjournment thereof in person, if you are a Minority Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly encouraged to complete and sign the enclosed yellow form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed respectively on them and deposit them, together with the power of attorney or other authority (if any), with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any case not later than the respective times stated under the section entitled "Actions to be taken" set out on pages 1 to 5 of this document. In the case of the pink form of proxy in respect of the Court Meeting, it should be deposited not later than 10:00 a.m. on Wednesday, 27 April 2011 or it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the yellow form of proxy for use at the Extraordinary General Meeting must be deposited not later than 10:30 a.m. on Wednesday, 27 April 2011 or it may alternatively be handed to the chairman of the Extraordinary General Meeting at the Extraordinary General Meeting if it is not so lodged. The completion and return of a form of proxy for each of the Court Meeting or the Extraordinary General Meeting will not preclude you from attending and voting in person at the Court Meeting or the Extraordinary General Meeting or any adjournment thereof. In such event, the returned form of proxy shall be deemed to have been revoked.**

In case of inconsistency, the English language text of this document shall prevail over the Chinese language text.

4 April 2011

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ACTIONS TO BE TAKEN

ACTIONS TO BE TAKEN BY SHAREHOLDERS

A **pink** form of proxy for use at the Court Meeting and a **yellow** form of proxy for use at the Extraordinary General Meeting are enclosed with this document.

Whether or not you are able to attend the Court Meeting or the Extraordinary General Meeting or any adjournment thereof in person, if you are a Minority Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly encouraged to complete and sign the enclosed yellow form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed respectively on them and deposit them, together with the power of attorney or other authority (if any), with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any case not later than the following respective times. In the case of the pink form of proxy in respect of the Court Meeting, it should be deposited not later than 10:00 a.m. on Wednesday, 27 April 2011 or it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the yellow form of proxy for use at the Extraordinary General Meeting must be deposited not later than 10:30 a.m. on Wednesday, 27 April 2011 or it may alternatively be handed to the chairman of the Extraordinary General Meeting at the Extraordinary General Meeting if it is not so lodged.

The completion and return of a form of proxy for each of the Court Meeting or the Extraordinary General Meeting will not preclude you from attending and voting in person at the Court Meeting or the Extraordinary General Meeting or any adjournment thereof. In such event, the returned form of proxy shall be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the Extraordinary General Meeting, you will still be bound by the outcome of such Court Meeting and/or Extraordinary General Meeting. You are therefore strongly urged to attend and vote at the Court Meeting and/or the Extraordinary General Meeting in person or by proxy.

Voting at the Court Meeting and the Extraordinary General Meeting will be taken by poll as required under the Hong Kong Listing Rules and the Takeovers Code.

If a Registered Owner or Beneficial Owner in Hong Kong has questions concerning administrative matters, such as dates, documentation and procedures relating to the Scheme Proposal, please call the share registrar of the Company, Computershare Hong Kong Investor Services Limited at (852) 2862 8555 between 9:00 a.m. and 6:00 p.m. Monday to Friday. This helpline cannot and will not provide advice on the merits of the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer or give financial or legal advice.

ACTIONS TO BE TAKEN

For the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Tuesday, 26 April 2011 to Friday, 29 April 2011 (both days inclusive) and during such period, no transfer of Shares will be effected.

In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 21 April 2011.

An announcement will be made by the Company in relation to the results of the Court Meeting and the Extraordinary General Meeting, and if all the resolutions are passed at those meetings, further announcement(s) will be made in relation to the results of the hearing of the petition for the sanction of the Scheme of Arrangement by the High Court, the Effective Date and the date of withdrawal of the listing of the Shares from the Hong Kong Stock Exchange.

ACTIONS TO BE TAKEN BY BENEFICIAL OWNERS WHOSE SHARES ARE HELD BY A REGISTERED OWNER OR DEPOSITED IN CCASS

No person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the Extraordinary General Meeting.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the Extraordinary General Meeting personally, you should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the Extraordinary General Meeting and for such purpose the Registered Owner may appoint you as its proxy.

Alternatively, if you are a Beneficial Owner who wishes to attend the Court Meeting and/or the Extraordinary General Meeting personally, you may arrange for some or all of your Shares to be transferred into your own name.

The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the Extraordinary General Meeting shall be in accordance with all relevant provisions in the Articles.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.

ACTIONS TO BE TAKEN

The completion and return of a form of proxy for the Court Meeting and/or the Extraordinary General Meeting will not preclude the Registered Owner from attending and voting in person at the Court Meeting or the Extraordinary General Meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are a person admitted to participate in CCASS as an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons, or alternatively to arrange for some or all of such Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote in respect of the Scheme of Arrangement. The procedure for voting in respect of the Scheme of Arrangement by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

ACTIONS TO BE TAKEN BY PREFERENCE SHAREHOLDERS

Procedures for acceptance of the Preference Share Offer

If the Preference 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) in respect of your Preference Shares is/are in your name, and you wish to accept the Preference Share Offer, you must send the accompanying Form of Acceptance duly completed together with the relevant Preference Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong.

If the Preference 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) in respect of your Preference Shares is/are in the name of a nominee company or some names other than your own, and you wish to accept the Preference Share Offer, you must either:

- (i) lodge your Preference 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) with the nominee company, or other nominee, with instructions authorising it to accept the Preference Share Offer, on your behalf and requesting it to deliver the accompanying Form of Acceptance duly completed together with the relevant Preference Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for the whole of your holding of the Preference Shares or, if applicable, for not less than the number of Preference Shares in respect of which you intend to accept the Preference Share Offer to the share

ACTIONS TO BE TAKEN

registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, marked "Fubon Bank Preference Share Offer" on the envelope; or

- (ii) arrange for the Preference Shares to be registered in your name by the Company through the share registrar of the Company, Computershare Hong Kong Investor Services Limited, and send the accompanying Form of Acceptance duly completed together with the relevant Preference 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) for the whole of your holding of the Preference Shares or, if applicable, for not less than the number of Preference Shares in respect of which you intend to accept the Preference Share Offer to the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, marked "Fubon Bank Preference Share Offer" on the envelope.

If you have lodged transfer(s) of any of your Preference Shares for registration in your name and have not yet received your Preference Share certificate(s) and you wish to accept the Preference Share Offer in respect of your Preference Shares, you should nevertheless complete the accompanying Form of Acceptance and deliver it to the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an irrevocable authority to the Offeror or its agent(s) to collect from the Company or Computershare Hong Kong Investor Services Limited, on your behalf, the relevant Preference Share certificate(s) when issued and to deliver such certificate(s) to Computershare Hong Kong Investor Services Limited and to authorise and instruct Computershare Hong Kong Investor Services Limited to hold such Preference Share certificate(s), subject to the terms of the Preference Share Offer, as if it was/they were delivered to the share registrar of the Company, Computershare Hong Kong Investor Services Limited, with the accompanying Form of Acceptance.

If the Preference 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) in respect of your Preference Shares is/are not readily available and/or is/are lost and you wish to accept the Preference Share Offer in respect of your Preference Shares, the accompanying Form of Acceptance should nevertheless be completed and delivered to Computershare Hong Kong Investor Services Limited together with a letter stating that you have lost one or more of your Preference Share certificate(s) and/or transfer receipts and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available, the relevant Preference Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any indemnity or indemnities required in respect thereof) should be forwarded to Computershare Hong Kong Investor Services Limited as soon as possible thereafter. If you have lost your Preference Share

ACTIONS TO BE TAKEN

certificate(s), you should also write to Computershare Hong Kong Investor Services Limited for a form of letter of indemnity which, when completed in accordance with the instructions given therein, should be returned to Computershare Hong Kong Investor Services Limited.

Acceptance of the Preference Share Offer will be treated as valid only if the completed Form of Acceptance is received by Computershare Hong Kong Investor Services Limited by not later than 4:00 p.m. on Wednesday, 22 June 2011 or such later time and/or date as the Offeror may determine and announce in compliance with the requirements of the Takeovers Code, and is:

- (i) accompanied by the relevant Preference Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and, if those Preference Share certificate(s) is/are not in your name, such other documents in order to establish your right to become the registered holder of the relevant Preference Shares; or
- (ii) from a registered Preference Shareholder or his personal representative (but only up to the amount of the registered holding and only to the extent that the acceptance relates to Preference Shares which are not taken into account under another sub-paragraph of this paragraph); or
- (iii) certified by Computershare Hong Kong Investor Services Limited.

If the Form of Acceptance is executed by a person other than the registered Preference Shareholder, appropriate documentary evidence of authority (such as grant of probate or certified copy of power of attorney) to the satisfaction of Computershare Hong Kong Investor Services Limited must be produced.

No acknowledgement of receipt for any Form(s) of Acceptance, Preference 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) will be given.

DEFINITIONS

In this document, the following expressions shall have the meanings respectively set opposite them unless the context requires otherwise:

“2016 Notes”	the US\$200,000,000 Dated Subordinated Fixed Rate Notes due 2016 issued by Fubon Bank on 25 April 2006 under its Euro Medium Term Note Programme
“2020 Notes”	the US\$200,000,000 Dated Subordinated Fixed Rate Notes due 2020 issued by Fubon Bank on 30 November 2010 under its Euro Medium Term Note Programme
“acting in concert”	has the meaning given to it in the Takeovers Code, and “parties acting in concert” and “concert parties” shall be construed accordingly
“Announcement”	the announcement dated 19 January 2011 jointly issued by the Offeror and the Company in relation to the Scheme Proposal and the Preference Share Offer
“Articles”	the articles of association of the Company, adopted on 27 January 1970 and as amended, supplemented or otherwise modified from time to time
“associate(s)”	has the meaning given to it in the Takeovers Code
“Authorisations”	all necessary authorisations, registrations, filings, rulings, consents, permissions, waivers, exemptions and approvals required from the Relevant Authorities or other third parties which are necessary for the Company to carry on its business
“Beneficial Owner(s)”	any beneficial owner of the Shares whose Shares are registered in the name of a Registered Owner other than himself
“Board”	the board of the directors of the Company
“Cancellation Consideration”	the consideration of HK\$5.20 in cash for every Scheme Share cancelled
“CCASS”	the Central Clearing and Settlement Systems established and operated by HKSCC
“Closing Date”	22 June 2011, being 14 days after the Effective Date, or any subsequent closing date of the Preference Share Offer if it is extended or revised pursuant to the Takeovers Code

DEFINITIONS

“Companies Ordinance”	Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company” or “Fubon Bank”	Fubon Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability whose Shares are listed on the Hong Kong Stock Exchange (stock code: 636)
“Court Meeting”	a meeting of the Minority Shareholders to be convened at the direction of the High Court, notice of which is set out on pages CM-1 to CM-3 of this document, and any adjournment thereof, for the purpose of approving the Scheme of Arrangement
“Despatch Date”	4 April 2011, being the date of posting of this document
“Director(s)”	director(s) of the Company
“Effective Date”	the date on which the Scheme of Arrangement becomes effective, which is expected to be 8 June 2011
“EGM” or “Extraordinary General Meeting”	an extraordinary general meeting of the Company, notice of which is set out on pages EGM-1 to EGM-3 of this document and any adjournment thereof, to be held immediately following the Court Meeting for the purpose of approving the reduction of the ordinary share capital of the Company and implementing the Scheme of Arrangement
“Euro Medium Term Note Programme”	the US\$1,000,000,000 Euro Medium Term Note Programme established by Fubon Bank on 20 March 2006 (as amended from time to time)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Explanatory Statement”	the explanatory statement in relation to the Scheme of Arrangement set out on pages 67 to 83 of this document issued in compliance with Section 166A of the Companies Ordinance

DEFINITIONS

“Financial Adviser” or “UBS”	UBS AG, Hong Kong Branch, the financial adviser to the Offeror and a registered institution under the SFO for 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 as defined under the SFO
“Form of Acceptance”	the form of acceptance and transfer of Preference Shares in respect of the Preference Share Offer (accompanying this document)
“FSC”	ROC Financial Supervisory Commission
“Fubon Bank Group”	the Company and its subsidiaries
“High Court”	High Court of Hong Kong SAR
“HKMA”	the Hong Kong Monetary Authority
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	an independent committee of the Board established for the purpose of advising the Minority Shareholders in respect of the Scheme Proposal and the Preference Shareholders in respect of the Preference Share Offer
“Independent Financial Adviser”	CLSA Equity Capital Markets Limited, the independent financial adviser to the Independent Board Committee and is licensed to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
“Investor Participant(s)”	person(s) admitted to participate in CCASS as investor participant(s)

DEFINITIONS

“Last Trading Day”	7 January 2011, being the last full trading day in the Shares immediately before the suspension of trading in the Shares pending publication of the Announcement
“Latest Practicable Date”	1 April 2011, being the latest practicable date for ascertaining certain information contained in this document
“Minority Shareholders”	Shareholders other than the Offeror or parties acting in concert with it
“New Shares”	new Shares to be issued to the Offeror pursuant to the Scheme of Arrangement, and being the same in number as the number of the Scheme Shares
“NT\$”	New Taiwan Dollar(s), the lawful currency of Taiwan
“Offeror” or “Fubon Financial”	Fubon Financial Holding Co., Ltd., a limited company incorporated in Taiwan the shares of which are listed on the Taiwan Stock Exchange (stock number: 2881)
“Other CCASS Participant”	a broker, custodian, nominee or other relevant person who is, or has deposited Shares with, a CCASS participant
“Preference Shareholders”	holders of Preference Shares other than the Offeror or parties acting in concert with it (save for those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities)
“Preference Share Offer”	the voluntary conditional cash offer for all the issued Preference Shares (other than those already owned by the Offeror or parties acting in concert with it)
“Preference Shares”	cumulative preference shares of par value US\$0.10237 each in the capital of the Company
“Record Time”	4:00 p.m. Hong Kong time on the trading day immediately preceding the Effective Date, being the record time for determining entitlements of the Scheme Shareholders under the Scheme of Arrangement
“Registered Owner(s)”	any person (including without limitation a nominee, trustee, depositary or any other authorised custodian or third party) whose name is entered in the register of members of the Company as a holder of the Shares

DEFINITIONS

“Registrar of Companies”	the Registrar of Companies appointed under the Companies Ordinance
“Relevant Authorities”	applicable governments or governmental bodies, regulatory bodies, courts or institutions including but not limited to the FSC, the ROC Investment Commission of the Ministry of Economic Affairs, the SFC, the Hong Kong Stock Exchange and the HKMA
“ROC”	Republic of China
“Scheme of Arrangement”	the scheme of arrangement under Section 166 of the Companies Ordinance involving the cancellation of all the Scheme Shares
“Scheme Proposal”	the proposed privatisation of the ordinary share capital of the Company by the Offeror by way of the Scheme of Arrangement
“Scheme Shareholders”	registered holders of the Scheme Shares
“Scheme Shares”	Shares in issue at the Record Time, other than those beneficially owned by the Offeror
“SFC”	the Securities and Futures Commission
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholders”	registered holders of the Shares
“Shares”	ordinary shares of HK\$1.00 each in the capital of the Company
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers (as revised from time to time)
“US\$”	United States dollar(s), the lawful currency of the United States of America

EXPECTED TIMETABLE

Shareholders and Preference Shareholders should note that the timetable, which is mainly dependent on the date of the High Court hearing, is subject to change and is indicative only. Further announcements will be made in the event that there is any change to the timetable.

Hong Kong time

Despatch Date and the commencement of the Preference Share Offer (<i>Note 1</i>)	Monday, 4 April 2011
Latest time for lodging transfers of the Shares in order to be entitled to attend and vote at the Court Meeting and the Extraordinary General Meeting	4:30 p.m. on Thursday, 21 April 2011
Closure of register of members for determination of entitlement to attend and vote at the Court Meeting and the Extraordinary General Meeting (<i>Note 2</i>)	Tuesday, 26 April 2011 to Friday, 29 April 2011 (both days inclusive)
Latest time for lodging forms of proxy in respect of the Court Meeting (<i>Note 3</i>)	10:00 a.m. on Wednesday, 27 April 2011
the Extraordinary General Meeting (<i>Note 3</i>)	10:30 a.m. on Wednesday, 27 April 2011
Suspension of trading of the Shares (<i>Note 4</i>)	9:00 a.m. on Friday, 29 April 2011
Court Meeting (<i>Note 3</i>)	10:00 a.m. on Friday, 29 April 2011
Extraordinary General Meeting (<i>Note 3</i>)	10:30 a.m. on Friday, 29 April 2011 (or as soon as the Court Meeting has been concluded or adjourned)
Announcement of the results of the Court Meeting and the Extraordinary General Meeting posted on the website of the Hong Kong Stock Exchange	by 7:00 p.m. on Friday, 29 April 2011
Resumption of trading of Shares	9:00 a.m. on Tuesday, 3 May 2011
Expected latest time for trading of Shares on the Hong Kong Stock Exchange	4:00 p.m. on Friday, 27 May 2011
Suspension of trading of the Shares pending withdrawal of listing	9:00 a.m. on Monday, 30 May 2011

EXPECTED TIMETABLE

Latest time for lodging transfers of the Shares in order to qualify for entitlements under the Scheme of Arrangement	4:30 p.m. on Wednesday, 1 June 2011
Register of members of the Company closed for determining entitlements to qualify under the Scheme of Arrangement (<i>Note 5</i>)	Thursday, 2 June 2011 to Tuesday, 7 June 2011 (both days inclusive)
High Court hearing of the petition for the sanction of the Scheme of Arrangement (<i>Note 6</i>)	Tuesday, 7 June 2011
Record Time	4:00 p.m. on Tuesday, 7 June 2011
Announcement of the result of the High Court hearing, the expected Effective Date and the expected date of withdrawal of the listing of the Shares on the Hong Kong Stock Exchange posted on the website of the Hong Kong Stock Exchange	by 7:00 p.m. on Tuesday, 7 June 2011
Effective Date (<i>Note 6</i>)	Wednesday, 8 June 2011
Withdrawal of the listing of the Shares on the Hong Kong Stock Exchange becomes effective ...	9:00 a.m. on Wednesday, 8 June 2011
Announcement of, among other things, the Effective Date and the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange posted on the website of the Hong Kong Stock Exchange	Wednesday, 8 June 2011
Cheques for the cash payment under the Scheme Proposal to be despatched as soon as possible but in any event on or before	Saturday, 18 June 2011
Latest time and date for acceptance of the Preference Share Offer (<i>Note 7, 9</i>)	4:00 p.m. on Wednesday, 22 June 2011
Closing Date of the Preference Share Offer (<i>Note 7</i>)	Wednesday, 22 June 2011
Announcement of the results of the Preference Share Offer, or as to whether the Preference Share Offer has been revised or extended, on the website of the Hong Kong Stock Exchange	by 7:00 p.m. on Wednesday, 22 June 2011
Latest date for posting of remittances for the amounts due under the Preference Share Offer in respect of valid acceptances received under the Preference Share Offer (<i>Note 8</i>) ...	Saturday, 2 July 2011

EXPECTED TIMETABLE

Notes:

- (1) The Preference Share Offer is made on 4 April 2011, being the date of posting of this scheme document, and is capable of acceptance on and from that date until the Closing Date.
- (2) The register of members of the Company will be closed during such period for the purpose of determining entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the Extraordinary General Meeting. For the avoidance of doubt, this period of closure is not for determining entitlements of Scheme Shareholders under the Scheme of Arrangement.
- (3) The pink form of proxy in respect of the Court Meeting and the yellow form of proxy in respect of the Extraordinary General Meeting should be completed and signed in accordance with the instructions respectively printed thereon and should be lodged with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event by the times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. The yellow form of proxy for the Extraordinary General Meeting must be lodged no later than the time and date stated above or handed to the chairman of the Extraordinary General Meeting at the Extraordinary General Meeting if it is not so lodged in order for it to be valid. Completion and return of the forms of proxy will not preclude a member from attending and voting in person at the relevant meeting or any adjournment thereof if he so wishes. In such event, the relevant form of proxy shall be deemed to have been revoked.
- (4) Trading of the Shares will be suspended from 9:00 a.m. on Friday, 29 April 2011 pending publication of an announcement of the results of the Court Meeting and the Extraordinary General Meeting. Trading of the Shares is expected to resume at 9:00 a.m. on the trading day following the announcement of these results.
- (5) The register of members of the Company will be closed during such period for the purpose of determining the identities of Scheme Shareholders who are qualified for entitlements under the Scheme of Arrangement.
- (6) The Scheme of Arrangement shall become effective when it is sanctioned (with or without modification) by the High Court and an office copy of the order of the High Court, together with the minute containing the particulars required by Section 61 of the Companies Ordinance, are delivered to and registered by the Registrar of Companies.
- (7) The Preference Share Offer, which is not conditional upon any pre-determined level of acceptances received, will close on Wednesday, 22 June 2011 unless the Offeror revises or extends the Preference Share Offer in accordance with the Takeovers Code. The Offeror reserves the right to extend the Preference Share Offer until such date as it may determine pursuant to the Takeovers Code. An announcement will be posted on the website of the Hong Kong Stock Exchange by 7:00 p.m. on Wednesday, 22 June 2011 stating whether the Preference Share Offer has been revised or extended or has expired. In the event that the Offeror decides to extend the Preference Share Offer, notice in writing of at least 14 days will be given, before the Preference Share Offer is closed, to those Preference Shareholders who have not accepted the Preference Share Offer. If in the course of the Preference Share Offer, the Offeror revises its terms, all the Preference Shareholders, whether or not they have already accepted the Preference Share Offer, will be entitled to the revised terms. A revised Preference Share Offer must be kept open for at least 14 days following the date on which the revised Preference Share Offer document is posted and shall not be closed earlier than 22 June 2011.
- (8) Pursuant to the Takeovers Code, remittances in respect of the consideration payable for the Preference Shares tendered under the Preference Share Offer will be paid by ordinary post to the Preference Shareholders accepting the Preference Share Offer at their respective addresses as they appear on the register of members of the Company or, in the case of joint Preference Shareholders, to the Preference Shareholder whose name stands first in the register of members of the Company at his/her/its own risks as soon as possible, but in any event within 10 days from the date of the receipt by Computershare Hong Kong Investor Services Limited of the duly completed Form of Acceptance and all valid requisite documents from the Preference Shareholders accepting the Preference Share Offer. Please refer to the

EXPECTED TIMETABLE

paragraph headed “Acceptance and Settlement – Settlement of the Preference Share Offer” in the “Letter from UBS” of this document for further information in relation to the settlement of the Preference Share Offer.

- (9) Acceptance of the Preference Share Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. Please refer to sub-paragraph (B) under the paragraph headed “General” in the “Letter from UBS” of this document for further information on the circumstances when acceptances may be withdrawn.

LETTER FROM THE BOARD



FUBON BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 636)

Executive Directors:

Mr. Pei-Hwa Thomas LIANG (*Managing Director*)
Mr. James YIP
Mr. Dennis CHAN Wen-Yueh

Registered Office:

Fubon Bank Building
38 Des Voeux Road Central
Hong Kong

Non-Executive Directors:

Mr. Ming-Hsing (Richard) TSAI (*Chairman*)
Mr. Ming-Chung (Daniel) TSAI (*Vice Chairman*)
Mr. Victor KUNG
Mr. David CHANG Kuo-Chun
Mr. Michael CHANG Ming-Yuen

Independent Non-executive Directors:

Mr. Robert James KENRICK
Mr. Moses TSANG
Mr. Hung SHIH

4 April 2011

To the Shareholders and Preference Shareholders

Dear Sir or Madam,

**PROPOSAL TO PRIVATISE
THE ORDINARY SHARE CAPITAL OF FUBON BANK (HONG KONG) LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF
THE COMPANIES ORDINANCE
VOLUNTARY CONDITIONAL CASH OFFER BY
UBS AG, HONG KONG BRANCH ON BEHALF OF FUBON FINANCIAL HOLDING CO., LTD.
TO ACQUIRE ALL THE ISSUED PREFERENCE SHARES OF FUBON BANK (HONG KONG) LIMITED
(OTHER THAN THOSE ALREADY OWNED BY FUBON FINANCIAL HOLDING CO., LTD.
OR PARTIES ACTING IN CONCERT WITH IT)
PROPOSED WITHDRAWAL OF LISTING OF FUBON BANK (HONG KONG) LIMITED**

INTRODUCTION

It was jointly announced by the Offeror and the Company on 19 January 2011 that on 10 January 2011 (i) the Offeror had requested the Board to put forward to the Scheme Shareholders the Scheme Proposal for the privatisation of the ordinary share capital of the Company which, if approved and implemented, would result in the withdrawal of listing of

LETTER FROM THE BOARD

the Shares on the Hong Kong Stock Exchange; and (ii) the Offeror will make, through the Financial Adviser, a voluntary conditional cash offer to acquire all the issued Preference Shares (other than those already owned by the Offeror or parties acting in concert with it).

Following a meeting of the Board on 12 January 2011, the Board agreed to put forward the Scheme Proposal for consideration by the Scheme Shareholders.

On 15 March 2011, it was further announced by the Offeror and the Company jointly that the Offeror had requested the Board to put forward to the Scheme Shareholders a revised Scheme Proposal whereby the Cancellation Consideration would be increased from HK\$5.00 to HK\$5.20 but with all other terms remaining unchanged and terms of the Preference Share Offer remaining unchanged. The Offeror also confirmed in such announcement that there would be no further revision to the Cancellation Consideration.

Following a meeting held on 15 March 2011, the Board agreed to put forward the revised Scheme Proposal for consideration by the Scheme Shareholders.

As at the Latest Practicable Date, the Offeror owned 879,120,000 Shares, representing 75% of the issued Shares and 1,133,662,994 Preference Shares, representing approximately 96.72% of the issued Preference Shares. The proposed privatisation of the ordinary share capital of the Company will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror, and the listing of the Shares will be withdrawn from the Hong Kong Stock Exchange.

The Preference Share Offer will be subject to and conditional upon the Scheme of Arrangement becoming effective. By accepting the Preference Share Offer, the Preference Shareholders will sell their Preference Shares to the Offeror free from all liens, claims, encumbrances and together with all rights attaching to the Preference Shares as at the Closing Date, including the right to receive all dividends accrued but unpaid and distribution identified as payable to the Preference Shareholders on the Closing Date.

Rule 2.8 of the Takeovers Code prescribes that the members of an independent committee of a company's board of directors formed for the purpose of considering an offer as in the present case must comprise all of the company's non-executive directors who have no direct or indirect interest in the offer. Accordingly, the Independent Board Committee comprising Mr. Robert James Kenrick, Mr. Moses Tsang and Mr. Hung Shih, being independent non-executive Directors, has been formed to advise the Minority Shareholders in connection with the Scheme Proposal and the Preference Shareholders in connection with the Preference Share Offer. As for the other non-executive Directors, (1) Mr. Ming-Hsing (Richard) Tsai is a director and Vice Chairman of the Offeror; (2) Mr. Ming-Chung (Daniel) Tsai is a director and Chairman of the Offeror; (3) Mr. Victor Kung is a director and president of the Offeror; (4) Mr. David Chang Kuo-Chun and Mr. Michael Chang Ming-Yuen are senior consultants of the Offeror. In compliance with Rule 2.8 of the Takeovers Code, they have not been included in the Independent Board Committee so as to avoid any or any possible conflict of interests.

LETTER FROM THE BOARD

The Company, with the approval of the Independent Board Committee, has appointed CLSA Equity Capital Markets Limited as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Scheme Proposal, the Scheme of Arrangement and the Preference Share Offer.

The Offeror has appointed UBS as its financial adviser in connection with the Scheme Proposal and the Preference Share Offer. The purpose of this document is to provide you with further information regarding the Scheme Proposal, the Scheme of Arrangement and the Preference Share Offer and to give you notices of the Court Meeting and the Extraordinary General Meeting and the Form of Acceptance. Your attention is also drawn to (i) the letter from UBS set out on pages 26 to 35 of this document; (ii) the letter from the Independent Board Committee set out on pages 36 to 37 of this document; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee set out on pages 38 to 66 of this document; (iv) the Explanatory Statement set out on pages 67 to 83 of this document; and (v) the terms of the Scheme of Arrangement set out on pages S-1 to S-7 of this document.

THE SCHEME PROPOSAL AND THE PREFERENCE SHARE OFFER

Subject to the conditions described in the section entitled “Conditions of the Scheme Proposal and the Preference Share Offer” in the Explanatory Statement on pages 70 to 72 of this document being fulfilled or waived (as applicable), the proposed privatisation of the ordinary share capital of the Company will be implemented by way of the Scheme of Arrangement, further details of which are set out in the section headed “Scheme of Arrangement” below.

The Preference Share Offer will only be subject to and conditional upon the Scheme of Arrangement becoming effective. By accepting the Preference Share Offer, the Preference Shareholders will sell their Preference Shares to the Offeror free from all liens, claims, encumbrances and together with all rights attaching to the Preference Shares as at the Closing Date, including the right to receive all dividends accrued but unpaid and distributions identified as payable to the Preference Shareholders on the Closing Date. Further details of the Preference Share Offer are set out in the section headed “Preference Share Offer” below.

SCHEME OF ARRANGEMENT

Subject to the Scheme of Arrangement becoming effective, the Scheme Shareholders will receive from the Offeror as Cancellation Consideration:

HK\$5.20 in cash for every Scheme Share cancelled.

The Offeror has advised that the Cancellation Consideration will not be revised in the course of the Scheme of Arrangement and the Offeror does not reserve the right to do so.

LETTER FROM THE BOARD

Under the Scheme of Arrangement, the ordinary share capital of the Company will, on the Effective Date, be reduced by cancelling and extinguishing the Scheme Shares and, immediately following such reduction, the ordinary share capital of the Company will be restored to its former amount by the allotment and issuance at par to the Offeror credited as fully paid of the same number of New Shares as is equal to the Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the capital reduction will be applied in paying up in full at par the New Shares so issued to the Offeror.

Upon the Scheme of Arrangement becoming effective, all of the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be 8 June 2011.

Conditional upon the approval of the Scheme of Arrangement at the Court Meeting and the passing of the special resolution to give effect to the Scheme of Arrangement at the Extraordinary General Meeting, the listing of the Shares on the Hong Kong Stock Exchange will be withdrawn in accordance with Rule 6.15 of the Hong Kong Listing Rules as soon as practicable. If the Scheme of Arrangement becomes effective on 8 June 2011, the listing of the Shares on the Hong Kong Stock Exchange is expected to be withdrawn at 9:00 a.m. on the same date.

The 2016 Notes and the 2020 Notes issued by Fubon Bank under the Euro Medium Term Note Programme, which are not convertible into Shares or Preference Shares, will remain listed on the Hong Kong Stock Exchange.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$1,406,592,000 divided into 1,406,592,000 Shares of par value HK\$1.00 each and US\$119,994,019.20 divided into 1,172,160,000 Preference Shares of US\$0.10237 each, and the issued share capital of the Company is HK\$1,172,160,000 divided into 1,172,160,000 Shares and US\$119,994,019.20 divided into 1,172,160,000 Preference Shares.

LETTER FROM THE BOARD

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme of Arrangement becoming effective and closing of the Preference Share Offer (assuming that there are no other changes to the Company's shareholding structure on or prior to the Effective Date and all Preference Shareholders accept the Preference Share Offer):

Shareholders	As at the Latest Practicable Date				Upon the Scheme of Arrangement becoming effective and closing of the Preference Share Offer ^(Note)			
	Number of Shares	%	Number of Preference Shares	%	Number of Shares	%	Number of Preference Shares	%
The Offeror	879,120,000	75	1,133,662,994	96.72	1,172,160,000	100	1,172,160,000	100
Other concert parties	0	0	0	0	0	0	0	0
The Offeror and parties acting in concert with it	879,120,000	75	1,133,662,994	96.72	1,172,160,000	100	1,172,160,000	100
Minority Shareholders/ Preference Shareholders	293,040,000	25	38,497,006	3.28	0	0	0	0
Total issued Shares/Preference Shares	1,172,160,000	100	1,172,160,000	100	1,172,160,000	100	1,172,160,000	100

Note: assuming that there are no other changes to the Company's shareholding structure on or prior to the Effective Date and all Preference Shareholders accept the Preference Share Offer

As at the Latest Practicable Date, the Offeror is interested in 879,120,000 Shares, representing 75% of the issued Shares. The Shares beneficially owned by the Offeror will not form part of the Scheme Shares and as such, will not be voted at the Court Meeting. However, the Offeror has indicated that, if the Scheme of Arrangement is approved at the Court Meeting, the Offeror will vote in favour of the special resolution to be proposed at the Extraordinary General Meeting to approve and give effect to the Scheme of Arrangement, including the approval of the reduction of the authorised and issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of New Shares as is equal to the number of the Scheme Shares cancelled.

As at the Latest Practicable Date, the Offeror is interested in 1,133,662,994 Preference Shares, representing approximately 96.72% of the issued Preference Shares. The remaining 38,497,006 Preference Shares in issue, representing approximately 3.28% of the issued Preference Shares, are held by the Preference Shareholders, being parties other than the Offeror or parties acting in concert with it (save for those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities). UBS (other than those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities) does not

LETTER FROM THE BOARD

hold any Shares or Preference Shares as at the Latest Practicable Date. As at the Latest Practicable Date none of the Directors, whether as directors or shareholders or creditors of the Company or otherwise, has any material interest in the Scheme of Arrangement.

As at the Latest Practicable Date, the Company does not have any outstanding options, warrants, derivatives or securities convertible into Shares or Preference Shares in issue.

Save as disclosed above, the Offeror and any parties acting in concert with it (save for those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities) do not hold any other Shares or Preference Shares or any options, warrants, derivatives or securities convertible into Shares or Preference Shares as at the Latest Practicable Date.

As at the Latest Practicable Date, the Minority Shareholders are interested in an aggregate of 293,040,000 Shares, representing 25% of the issued Shares, and they will be entitled to vote at the Court Meeting. As at the Latest Practicable Date, none of the Offeror or parties acting in concert with it has received any irrevocable voting commitment from the Minority Shareholders in respect of the Court Meeting.

As at the Latest Practicable Date, there are no arrangements (whether by way of option, indemnity or otherwise) in relation to Shares or Preference Shares or other securities of the Offeror which might be material to the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer.

As at the Latest Practicable Date, the Offeror and any person acting in concert with it (other than those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities) have not borrowed or lent any relevant securities of the Company (as defined in Note 4 to Rule 22 of the Takeovers Code).

COMPARISON OF VALUE

The Cancellation Consideration of HK\$5.20 in cash for every Scheme Share cancelled under the Scheme of Arrangement represents:

- (i) a premium of approximately 37.6% over the closing price of HK\$3.78 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 43.3% over the average closing price of approximately HK\$3.63 per Share as quoted on the Hong Kong Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 40.9% over the average closing price of approximately HK\$3.69 per Share as quoted on the Hong Kong Stock Exchange for 60 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 39.4% over the average closing price of approximately HK\$3.73 per Share as quoted on the Hong Kong Stock Exchange for the 90 trading days up to and including the Last Trading Day;

LETTER FROM THE BOARD

- (v) a premium of approximately 46.2% over the audited consolidated net asset value (after deducting the issued share capital of Preference Shares as at 31 December 2010 of approximately HK\$925.4 million) of approximately HK\$3.56 per Share as at 31 December 2010; and
- (vi) a premium of approximately 1.0% over the closing price of HK\$5.15 per Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date.

The Preference Shares are not listed on any stock exchange and therefore there is no market value for the Preference Shares to compare against the offer price under the Preference Share Offer.

PREFERENCE SHARE OFFER

The Preference Shares are not listed on any stock exchange. The Preference Share Offer is only subject to and conditional upon the Scheme of Arrangement becoming effective. The Preference Share Offer is not conditional upon the Offeror having received any pre-determined level of acceptances in respect of the Preference Share Offer.

By accepting the Preference Share Offer, the Preference Shareholders will sell their Preference Shares to the Offeror free from all liens, claims, encumbrances and together with all rights attaching to the Preference Shares as at the Closing date, including the right to receive all dividends accrued but unpaid and distributions identified as payable to the Preference Shareholders on the Closing Date.

The Preference Share Offer will be made on the basis of a cash price per Preference Share in US dollars which equals the sum of (i) US\$0.10237, being the par value of each Preference Share, (ii) an amount representing the accrued but unpaid dividend calculated at the fixed rate of 9 per cent. per annum as provided for in the Articles for the period from 15 December 2010 to and including the Effective Date, and (iii) an amount representing the future dividend calculated at the fixed rate of 9 per cent. per annum as provided for in the Articles for the period from the Effective Date to and including 24 December 2013, such future dividend to be discounted by applying a discount rate of 6 per cent. per annum, with the discount calculated with reference to the dividend payment schedule provided for in the Articles.

For the avoidance of doubt, the accrued but unpaid dividend for the period from 15 December 2010 to and including the Effective Date equals the dividend that Preference Shareholders are entitled to pursuant to the Articles for such dividend less any dividend paid or payable by Fubon Bank to the Preference Shareholders at any time during such period or in respect of such period, including the cumulative preferential dividend at the fixed rate of 9 per cent. per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on 15 June 2011.

Assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; and (ii) save for the cumulative preferential dividend at the fixed rate of 9 per cent. per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on or before 15 June 2011 and in any event

LETTER FROM THE BOARD

before the Closing Date, no other dividend has been or will be paid to the Preference Shareholders from 16 December 2010 to the Closing Date, the offer price per Preference Share will be US\$0.123793, representing a premium of approximately 20.9% over the par value of US\$0.10237 each of the Preference Shares. Further announcements will be made if there is any change to the offer price under the Preference Share Offer.

CONFIRMATION OF FINANCIAL RESOURCES

The total consideration payable under the Scheme Proposal will be approximately HK\$1,523.8 million and assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; (ii) all Preference Shareholders accept the Preference Share Offer; and (iii) save for the cumulative preferential dividend at the fixed rate of 9 per cent. per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the Preference Shareholders on or before 15 June 2011 and in any event before the Closing Date, no other dividend has been or will be paid to the Preference Shareholders from 16 December 2010 to the Closing Date, the total cash consideration payable under the Preference Share Offer will be approximately US\$4.8 million. The consideration payable under the Scheme Proposal and the Preference Share Offer will be funded from the internal resources of and existing credit facility available to the Offeror. The principal lender for such credit facility is First Commercial Bank. The Offeror confirms that (i) payment of the interest and the principal of such credit facility and (ii) security for any liability (contingent or otherwise) under such credit facility would not be dependent to any significant extent on the business of the Fubon Bank Group.

As at the Latest Practicable Date, UBS AG, Hong Kong Branch, the financial advisor to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to implement the Scheme Proposal and the Preference Share Offer in accordance with their terms.

CONDITIONS OF THE SCHEME PROPOSAL AND THE PREFERENCE SHARE OFFER

The Scheme Proposal is subject to the satisfaction or waiver, as applicable, of the conditions as set out in the section headed “Conditions of the Scheme Proposal and the Preference Share Offer” in the Explanatory Statement appearing on pages 70 to 72 of this document.

All of the conditions will have to be fulfilled or waived, as applicable, on or before 30 September 2011 (or such later date as the Offeror and the Company may agree or (to the extent applicable) as the High Court may direct and as may be permitted under the Takeovers Code), otherwise, and subject to the requirements of the Takeovers Code, the Scheme of Arrangement will lapse. If the Scheme of Arrangement is withdrawn, not approved or lapses, the listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn. If approved, the Scheme of Arrangement will be binding on all Scheme Shareholders, irrespective of whether or not they attended or voted at the Court Meeting.

LETTER FROM THE BOARD

The Preference Shares are not listed on any stock exchange. The Preference Share Offer is only subject to and conditional upon the Scheme of Arrangement becoming effective. The Preference Share Offer is not conditional upon the Offeror having received any pre-determined level of acceptances in respect of the Preference Share Offer.

Shareholders, Preference Shareholders and potential investors should be aware that the implementation of the Scheme Proposal and the Preference Share Offer is subject to the conditions as set out in the section headed “Conditions of the Scheme Proposal and the Preference Share Offer” in the Explanatory Statement appearing on pages 70 to 72 of this document being fulfilled or waived, as applicable, and thus the Scheme Proposal may or may not become effective and the Preference Share Offer may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the Shares and the Preference Shares. Persons who are in any doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

REASONS FOR AND BENEFITS OF THE SCHEME PROPOSAL AND THE PREFERENCE SHARE OFFER AND EFFECTS OF THE SCHEME PROPOSAL AND THE PREFERENCE SHARE OFFER

You are urged to read carefully the sections headed “Reasons for and benefits of the Scheme Proposal” and “Effect of the Scheme Proposal” in the Explanatory Statement appearing on respectively page 73 and pages 74 to 76 of this document and the section headed “Reasons for and Benefits of the Preference Share Offer” in the letter from UBS appearing on pages 28 to 29 of this document.

COURT MEETING AND EXTRAORDINARY GENERAL MEETING

For the purpose of exercising your votes at the Court Meeting and the Extraordinary General Meeting, you are requested to read carefully the sections headed “Court Meeting and Extraordinary General Meeting” in the Explanatory Statement and “Actions to be taken” appearing on pages 80 to 81 and pages 81 to 83, respectively, of this document. The notices of the Court Meeting and of the Extraordinary General Meeting are to be found on pages CM-1 to CM-3 and EGM-1 to EGM-3 respectively of this document.

FUTURE PLANS FOR FUBON BANK

Your attention is drawn to the section headed “Future Plans for Fubon Bank” in the Explanatory Statement appearing on page 74 of this document.

INFORMATION ON FUBON BANK

Your attention is drawn to Appendix I “Financial Information relating to Fubon Bank” appearing on pages I-1 to I-127 of this document and the section headed “Information on the Company” in the Explanatory Statement appearing on pages 76 to 77 of this document.

LETTER FROM THE BOARD

Your attention is also drawn to the section headed “Information on Fubon Financial” in the Explanatory Statement appearing on page 77 of this document.

OVERSEAS SCHEME SHAREHOLDERS AND OVERSEAS PREFERENCE SHAREHOLDERS

Overseas Scheme Shareholders are requested to read specifically the section headed “Overseas Scheme Shareholders” in the Explanatory Statement appearing on pages 79 to 80 of this document. Overseas Preference Shareholders are requested to read specifically the section headed “Overseas Preference Shareholders” in the letter from UBS appearing on page 30 of this document.

ACTIONS TO BE TAKEN

The actions which Minority Shareholders are required to take in relation to the Scheme Proposal and the actions which Preference Shareholders are required to take in relation to the Preference Share Offer are set out under the section headed “Actions to be taken by Shareholders” and “Actions to be taken by Preference Shareholders”, respectively, appearing on pages 1 to 5 of this document.

RECOMMENDATION

Your attention is drawn to the recommendation of the Independent Financial Adviser to the Independent Board Committee, in respect of the Scheme Proposal and the Preference Share Offer as set out in the letter from the Independent Financial Adviser appearing on pages 38 to 66 of this document. Your attention is also drawn to the recommendation of the Independent Board Committee in respect of the Scheme Proposal and the Preference Share Offer as set out in the letter from the Independent Board Committee on pages 36 to 37 of this document.

SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to the sections headed “Withdrawal of the listing of the Shares and the Share Certificates” and “Entitlements to and payment of Cancellation Consideration” in the Explanatory Statement set out on page 78 and pages 78 to 79, respectively, and the section headed “Acceptance and Settlement” in the letter from UBS set out on pages 31 to 32 of this document.

TAXATION, EFFECTS AND LIABILITIES

It is emphasised that none of the Offeror, the Company, UBS, the Independent Financial Adviser nor any of their respective directors, officers, employees, agents or affiliates or any persons involved in the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme Proposal, the Scheme of Arrangement and the Preference Share Offer. Accordingly, Scheme Shareholders are urged to read the section headed “Taxation and Independent Advice” in the Explanatory Statement set out on page 80 of this document and Preference Shareholders are

LETTER FROM THE BOARD

urged to read the section headed “Taxation” in the letter from UBS set out on pages 32 to 33 of this document. If you are in any doubt as to any aspect of this document or as to the action to be taken, you should consult an appropriately qualified professional adviser.

FURTHER INFORMATION

The letter from UBS which contains further details on the Preference Share Offer is set out on pages 26 to 35 of this document. The Explanatory Statement, together with the appendices thereto, are set out on pages 67 to II-12 of this document. In addition, the terms of the Scheme of Arrangement are set out on pages S-1 to S-7, of this document. You are advised to read such information carefully before taking any action in respect of the Scheme Proposal or the Preference Share Offer.

In addition, a pink form of proxy for use by the Scheme Shareholders for the Court Meeting, a yellow form of proxy for use by all Shareholders for the Extraordinary General Meeting and a Form of Acceptance in respect of the Preference Share Offer are enclosed with copies of this document sent to the Registered Owners of the Shares and the Preference Shareholders.

Fubon Financial will publish an announcement in Taiwan as soon as practicable after the despatch date of this document in relation to the subject matter of this document. Such announcement can be viewed at the website of Fubon Financial www.fubon.com/eng/index_IR.htm and by selecting “Event and News”, “IR Calendar” and “2011”.

Yours faithfully,
For and on behalf of the Board
FUBON BANK (HONG KONG) LIMITED
Pei-Hwa Thomas Liang
Managing Director

LETTER FROM UBS



52/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong

4 April 2011

To the Preference Shareholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY
UBS AG, HONG KONG BRANCH ON BEHALF OF
FUBON FINANCIAL HOLDING CO., LTD.
TO ACQUIRE ALL THE ISSUED PREFERENCE SHARES OF
FUBON BANK (HONG KONG) LIMITED
(OTHER THAN THOSE ALREADY OWNED BY
FUBON FINANCIAL HOLDING CO., LTD.
OR PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

It was jointly announced by Fubon Financial and Fubon Bank on 19 January 2011 that on 10 January 2011 (i) Fubon Financial had requested the board of directors of Fubon Bank to put forward to the Scheme Shareholders the Scheme Proposal for the privatisation of the ordinary share capital of Fubon Bank which, if approved and implemented, would result in the withdrawal of listing of the Shares on the Hong Kong Stock Exchange; and (ii) Fubon Financial would make, through UBS AG, Hong Kong Branch, a voluntary conditional cash offer to acquire all the issued Preference Shares (other than those already owned by Fubon Financial or parties acting in concert with it).

As at the Latest Practicable Date, the Offeror owned 879,120,000 Shares, representing 75% of the issued Shares and 1,133,662,994 Preference Shares, representing approximately 96.72% of the issued Preference Shares.

Unless the context requires otherwise, terms defined in this document, of which this letter forms part, shall have the same meanings when used herein.

THE PREFERENCE SHARE OFFER

On behalf of Fubon Financial, we hereby make the Preference Share Offer to acquire all the Preference Shares not already owned by Fubon Financial and parties acting in concert with it, on the basis of a cash price per Preference Share in US dollars which equals the sum of (i) US\$0.10237, being the par value of each Preference Share, (ii) an amount representing the accrued but unpaid dividend calculated at the fixed rate of 9 per cent. per annum as provided for in the Articles for the period from 15 December 2010 to and including the Effective Date, and (iii) an amount representing the future dividend calculated at the fixed rate of 9 per cent. per annum as provided for in the Articles for the period from

LETTER FROM UBS

the Effective Date to and including 24 December 2013, such future dividend to be discounted by applying a discount rate of 6 per cent. per annum, with the discount calculated with reference to the dividend payment schedule provided for in the Articles.

For the avoidance of doubt, the accrued but unpaid dividend for the period from 15 December 2010 to and including the Effective Date equals the dividend that Preference Shareholders are entitled to pursuant to the Articles for such dividend less any dividend paid or payable by Fubon Bank to the Preference Shareholders at any time during such period or in respect of such period, including the cumulative preferential dividend at the fixed rate of 9 per cent. per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on 15 June 2011.

The Preference Share Offer is only subject to and conditional upon the Scheme of Arrangement becoming effective. The Preference Share Offer is not conditional upon the Offeror having received any pre-determined level of acceptances in respect of the Preference Share Offer.

Assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; and (ii) save for the cumulative preferential dividend at the fixed rate of 9 per cent. per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on or before 15 June 2011, no other dividend will be paid to the Preference Shareholders from the Latest Practicable Date to the Closing Date, the offer price per Preference Share will be US\$0.123793, representing a premium of approximately 20.9% over the par value of US\$0.10237 each of the Preference Shares. Further announcements will be made if there is any change to the offer price under the Preference Share Offer.

By accepting the Preference Share Offer, the Preference Shareholders will sell their Preference Shares to the Offeror free from all liens, claims, encumbrances and together with all rights attaching to the Preference Shares as at the Closing Date, including the right to receive all dividends accrued but unpaid and distribution identified as payable to the Preference Shareholders on the Closing Date.

The Preference Shares are not listed on any stock exchange and therefore there is no market value for the Preference Shares to compare against the offer price under the Preference Share Offer.

The Preference Shareholders who do not accept the Preference Share Offer will continue to hold the Preference Shares they own and will continue to be entitled to the rights, including the right to receive a cumulative preferential dividend at the fixed rate of 9 per cent. per annum, attached to the Preference Shares. However, if the Scheme of Arrangement becomes effective, Fubon Financial intends to seek the prior consent of the HKMA and conditional upon Fubon Bank being able to redeem the Preference Shares and remain solvent immediately thereafter, Fubon Financial intends to procure Fubon Bank to redeem the Preference Shares on or shortly after 24 December 2013.

As at the Latest Practicable Date, Fubon Financial or its concert parties had not received any irrevocable commitment to accept the Preference Share Offer.

LETTER FROM UBS

CONFIRMATION OF FINANCIAL RESOURCES

Assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; (ii) all Preference Shareholders accept the Preference Share Offer; and (iii) no dividend (other than the cumulative preferential dividend at the fixed rate of 9 per cent. per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles) has been or will be paid to holders of Preference Shares from 16 December 2010 to the Closing Date, the total cash consideration payable under the Preference Share Offer will be approximately US\$4.8 million. The consideration payable under the Preference Share Offer will be funded from the internal resources of and existing credit facility available to the Offeror. The principal lender for such credit facility is First Commercial Bank. The Offeror confirms that (i) payment of the interest and the principal of such credit facility and (ii) security for any liability (contingent or otherwise) under such credit facility would not be dependent to any significant extent on the business of the Fubon Bank Group.

As at the Latest Practicable Date, UBS AG, Hong Kong Branch, the financial advisor to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to implement the Preference Share Offer in accordance with its terms.

CONDITION OF THE PREFERENCE SHARE OFFER

The Preference Share Offer is only subject to and conditional upon the Scheme of Arrangement becoming effective. The Preference Share Offer is not conditional upon Fubon Financial having received any pre-determined level of acceptances in respect of the Preference Share Offer.

INFORMATION ON THE OFFEROR

The Offeror, or Fubon Financial, is a company incorporated in Taiwan with limited liability with its shares listed on the Taiwan Stock Exchange. Fubon Financial is a leading financial holding company in Taiwan. Fubon Financial and its subsidiaries provide a comprehensive range of financial products and services, including commercial banking, life insurance, general insurance, securities trading and brokerage, investment trust and asset management and are market leaders in their respective sectors. As at the end of September 2010, the total assets of Fubon Financial amounted to NT\$3.37 trillion, ranking second amongst Taiwan's publicly listed financial holding company. As at 31 December 2010, Fubon Financial had a network of more than 600 retail outlets and more than 30,000 employees in Taiwan.

REASONS FOR AND BENEFITS OF THE PREFERENCE SHARE OFFER

The Offeror had requested the Board to put forward the Scheme Proposal to the Scheme Shareholders and advised Fubon Bank that it would make the Preference Share Offer at the same time.

LETTER FROM UBS

The Scheme Proposal will facilitate business integration between Fubon Financial and Fubon Bank and will provide Fubon Financial with greater flexibility to support the future business development of Fubon Bank. The Offeror currently holds 75% of the total issued Shares and the Hong Kong Listing Rules require a minimum public float of 25%. The privatisation of Fubon Bank will simplify the shareholding structure of Fubon Bank.

In addition, the listing of the Shares requires Fubon Bank to bear listing-related costs and expenses. If the privatisation and the resulting withdrawal of listing of Fubon Bank is successful, these costs and expenses can be saved.

The Preference Share Offer is only subject to and conditional upon the Scheme of Arrangement becoming effective. The Preference Share Offer is not conditional upon Fubon Financial having received any pre-determined level of acceptances in respect of the Preference Share Offer. The Preference Shareholders who do not accept the Preference Share Offer will continue to hold the Preference Shares they own and will be entitled to the rights, including the right to receive a cumulative preferential dividend at the fixed rate of 9 per cent. per annum, attached to the Preference Shares. However, if the Scheme of Arrangement becomes effective, Fubon Financial intends to seek the prior consent of the HKMA and conditional upon Fubon Bank being able to redeem the Preference Shares and remain solvent immediately thereafter, Fubon Financial intends to procure Fubon Bank to redeem the Preference Shares on or shortly after 24 December 2013. If the Scheme Proposal does not proceed, Fubon Financial has no intention to procure Fubon Bank to redeem the Preference Shares on or shortly after 24 December 2013. Accordingly, the Preference Share Offer provides an opportunity to the Preference Shareholders to exit Fubon Bank and have their investments realised immediately should they so wish, instead of waiting for Fubon Bank to redeem the Preference Shares at its discretion (subject to the prior consent of the HKMA) and by December 2013 at the earliest.

THE OFFEROR'S INTENTION IN RELATION TO FUBON BANK

It is the intention of Fubon Financial to continue the development of the existing business of Fubon Bank in banking and financial services in Hong Kong after the successful privatisation of the Company. It is also the intention of Fubon Financial to develop a better business integration between Fubon Financial and Fubon Bank so as to achieve an efficient allocation of resources and business development. Fubon Financial does not have any plans to make any material adjustments with respect to the assets and existing employees of Fubon Bank and its subsidiaries.

INTEREST OF THE OFFEROR AND THE CONCERT PARTIES IN FUBON BANK

As at the Latest Practicable Date, the Offeror is interested in 1,133,662,994 Preference Shares, representing approximately 96.72% of the issued Preference Shares. The remaining 38,497,006 Preference Shares in issue, representing approximately 3.28% of the issued Preference Shares, are held by the Preference Shareholders, being parties other than the Offeror or parties acting in concert with it (save for those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund

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manager activities). UBS (other than those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities) does not hold any Shares or Preference Shares.

OVERSEAS PREFERENCE SHAREHOLDERS

Offers made under the Preference Share Offer to those Preference Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such Preference Shareholders are located. Such Preference Shareholders should inform themselves about and observe any applicable legal and regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Preference Shareholders wishing to accept the offers under the Preference Share Offer to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

Acceptances of the Preference Share Offer by any such person will constitute a warranty by such person that such person is permitted under all applicable laws to receive and accept the Preference Share Offer, and any revision thereof, and such acceptances shall be valid and binding in accordance with all applicable laws. Overseas Preference Shareholders are recommended to seek professional advice on whether to accept the Preference Share Offer.

The Offeror reserves the right to make arrangements in respect of Preference Shareholders who are not resident in Hong Kong in relation to the terms of the Preference Share Offer. Such arrangements may include notifying any matter in connection with the Preference Share Offer to the Preference Shareholders having a registered overseas address by announcement or by advertisement in a newspaper which may or may not be circulated in the jurisdiction within which such persons are resident. The notice will be deemed to have been sufficiently given, despite any failure by such Preference Shareholders to receive or see that notice.

The attention of overseas Preference Shareholders and any person (including, without limitation, any nominee, custodian and trustee) who may have an obligation to forward this document and the accompanying Form of Acceptance outside of Hong Kong is drawn to the section headed "Actions to be taken by Preference Shareholders" on pages 3 to 5 of this document.

LETTER FROM UBS

ACCEPTANCE AND SETTLEMENT

Procedures for Acceptance of the Preference Share Offer

The Preference Share Offer is made on 4 April 2011, being the Despatch Date, and is capable of acceptance on and from that date and will remain open for acceptance until 4:00 p.m. on Wednesday, 22 June 2011, unless extended or revised in accordance with the Takeovers Code. Fubon Financial reserves the right to revise or extend the Preference Share Offer in accordance with the Takeovers Code.

The Preference Share Offer may be revised at any time up to the Closing Date. If the Preference Share Offer is revised, such revised Preference Share Offer will remain open for acceptance for a period of at least 14 days from the date of posting of the written notification of the revision to the Preference Shareholders. In any case where the Preference Share Offer is revised, and the consideration offered under the revised Preference Share Offer does not represent on such date a reduction in the value of the Preference Share Offer in their original or any previously revised form(s), the benefit of such revised Preference Share Offer will be made available as set out herein to acceptors of the Preference Share Offer in their original or any previously revised form(s) (hereinafter called “previous acceptor(s)”). The execution by, or on behalf of, a previous acceptor of any Form of Acceptance shall be deemed to constitute acceptance of the Preference Share Offer as so revised.

To accept the Preference Share Offer, you must complete and sign the accompanying Form of Acceptance in accordance with the instructions printed thereon, which forms part of the terms of the Preference Share Offer.

The completed Form of Acceptance should then be forwarded, together with the relevant Preference 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) for the whole of your holding of the Preference Shares or, if applicable, for not less than the number of Preference Shares in respect of which you intend to accept the Preference Share Offer, by post or by hand to the share registrar of Fubon Bank, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, marked “Fubon Bank Preference Share Offer” on the envelope, as soon as practicable after receipt of these documents and in any event, so as to reach Computershare Hong Kong Investor Services Limited by no later than 4:00 p.m. on Wednesday, 22 June 2011 (or such later time and/or date as Fubon Financial may decide and announce with the consent of the Executive in accordance with the Takeovers Code). No receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

Your attention is also drawn to the section headed “Actions to be taken by Preference Shareholders” on pages 3 to 5 of this document.

LETTER FROM UBS

Settlement of the Preference Share Offer

Provided that a valid Form of Acceptance and the relevant documents required to render the relevant acceptance under the Preference Share Offer are complete and in good order in all respects and have been received by the share registrar of Fubon Bank, Computershare Hong Kong Investor Services Limited, by no later than 4:00 p.m. on Wednesday, 22 June 2011, being the latest time for acceptance of the Preference Share Offer unless the Preference Share Offer is extended by Fubon Financial in accordance with the Takeovers Code, a cheque for the amount due to the accepting Preference Shareholders in US dollars will be despatched to the relevant accepting Preference Shareholder by ordinary post at his/her/its own risk as soon as possible, but in any event within 10 days from the date on which all relevant documents (including documents of title) are received by Computershare Hong Kong Investor Services Limited to render such acceptance complete and valid.

Stamp Duty

Ad valorem stamp duty of the accepting Preference Shareholders arising in connection with acceptance of the Preference Share Offer amounting to 0.1% of the amount payable in respect of the relevant acceptance or, if higher, the value of the Preference Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) will be borne by the Offeror. The Offeror will also bear its own portion of buyer's ad valorem stamp duty under the Preference Share Offer at the rate of 0.1% of the amount payable in respect of the relevant acceptance or, if higher, the value of the Preference Shares as determined by the Collector of Stamp Revenue under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) and will be responsible to account to the Stamp Office of Hong Kong for the stamp duty payable for the sale and purchase of the relevant Preference Shares pursuant to the acceptances of the Preference Share Offer.

Accordingly, no stamp duty will be deducted from the amount due to the accepting Preference Shareholders in respect of their acceptance of the Preference Share Offer.

Nominee Registration

In order for the beneficial owners of the Preference Shares whose investments are registered in nominees' names to accept the Preference Share Offer, it is essential that they provide instructions to their nominee agents of their intentions with regard to the Preference Share Offer. To ensure equality of treatment of all Preference Shareholders, those registered Preference Shareholders who hold Preference Shares as nominees for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately.

TAXATION

The Preference 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 Preference Share Offer. It is emphasised that none of Fubon Financial, Fubon Bank, UBS, any of their respective directors, officers, employees, agents, affiliates or advisers and any

LETTER FROM UBS

other person involved in the Preference Share Offer accepts responsibility for any taxation or other effects on, or liabilities of, any person or persons as a result of their acceptances of the Preference Share Offer.

This document does not include any information in respect of overseas taxation. The Preference Shareholders who may be subject to overseas tax are recommended to consult their tax advisers regarding the implications in the relevant jurisdiction of owning and disposing of the Preference Shares.

GENERAL

- (A) As required under Rule 19 of the Takeovers Code, by 6:00 p.m. on 22 June 2011, or such later time and/or date as the Executive may in exceptional circumstances permit, Fubon Financial shall inform the Executive and the Hong Kong Stock Exchange of its intentions in relation to the revision or the extension or expiry of the Preference Share Offer. Fubon Financial shall publish an announcement through the website of the Hong Kong Stock Exchange by 7:00 p.m. on 22 June 2011 (or such later time and/or date as the Executive may agree) of the Preference Share Offer, stating whether the Preference Share Offer had been revised, extended or have expired. The announcement shall state the total number of Preference Shares and rights over Preference Shares:
- (a) for which acceptances of the Preference Share Offer have been received;
 - (b) held, controlled or directed by Fubon Financial or parties acting in concert with it before the offer period; and
 - (c) acquired or agreed to be acquired during the offer period by Fubon Financial or any parties acting in concert with it.

The announcement shall also (i) specify the percentages of the relevant classes of issued share capital of Fubon Bank and the percentages of voting rights represented by these numbers of Preference Shares; and (ii) include details of any relevant securities in Fubon Bank which Fubon Financial or any persons acting in concert with it has borrowed or lent, save for any borrowed Preference Shares which have been either on-lent or sold.

As required under the Takeovers Code and the Hong Kong Listing Rules, all announcements in relation to the Preference Share Offer in respect of which the Executive and the Hong Kong Stock Exchange have confirmed that they have no further comments thereon, must be published on the website of the Hong Kong Stock Exchange and made in accordance with the requirements of the Hong Kong Listing Rules.

- (B) As the Preference Share Offer is not conditional upon Fubon Financial having received any pre-determined level of acceptances, acceptances of the Preference Share Offer tendered by the Preference Shareholders shall be irrevocable and cannot be withdrawn, except as permitted under the Takeovers Code and in the circumstances where if Fubon Financial is unable to comply with the requirements set out in paragraph (A) above,

LETTER FROM UBS

under Rule 19.2 of the Takeovers Code, the Executive may require that the Preference Shareholders who tendered acceptances of the Preference Share Offer be granted a right of withdrawal on terms acceptable to the Executive until the requirements set out in paragraph (A) are met.

- (C) All communications, notices, Form of Acceptance, Preference Share certificates, transfer receipts, other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) and remittances to be delivered by or sent to or from the Preference Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and neither Fubon Financial, Fubon Bank, UBS, and any of their respective agents nor the share registrar of Fubon Bank, Computershare Hong Kong Investor Services Limited accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (D) The provisions set out in the accompanying Form of Acceptance form part of the terms of the Preference Share Offer.
- (E) The accidental omission to despatch this document and/or the Form of Acceptance or any of them to any person to whom the Preference Share Offer is made will not invalidate the Preference Share Offer in any way.
- (F) The Preference Share Offer is, and all acceptances will be, governed by and construed in accordance with the laws of Hong Kong. Execution of a Form of Acceptance by or on behalf of a Preference Shareholder will constitute such Preference Shareholder's agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Preference Share Offer.
- (G) Due execution of the Form of Acceptance will constitute an authority to any Fubon Financial directors, UBS or such person or persons as any of them may direct to complete and execute any document on behalf of the person accepting the Preference Share Offer and to do any other act that may be necessary or expedient for the purposes of vesting in Fubon Financial or such person or persons as it may direct the Preference Shares in respect of which such person has accepted the Preference Share Offer.
- (H) Acceptance of the Preference Share Offer by any person or persons will be deemed to constitute a warranty by such person or persons to Fubon Financial that the Preference Shares acquired under the Preference Share Offer is sold by any such person or persons free from all liens, claims and encumbrances and together with all rights attaching and accruing to the Preference Shares as at the Closing Date, including the right to receive all dividends or other distributions accrued but unpaid and identified as payable to the Preference Shareholders on the Closing Date and all future dividends or other distributions, if any, declared, paid or made on the Preference Shares on or after the Closing Date.

LETTER FROM UBS

- (I) The settlement of the consideration to which any Preference Shareholder is entitled under the Preference Share Offer will be implemented in full in accordance with the terms of the Preference Share Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which Fubon Financial may otherwise be, or claim to be, entitled against such Preference Shareholder.
- (J) References to the Preference Share Offer in this document and in the accompanying Form of Acceptance shall include any extension and/or revision thereof.
- (K) In case of any inconsistency, the English language text of this document and the accompanying Form of Acceptance shall prevail over the Chinese language.

Yours faithfully,

For and on behalf of

UBS AG, Hong Kong Branch

Jimmy Wong

Executive Director

David Chin

Managing Director

Head of Investment

Banking, Asia

Raymond Lau

Associate Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



FUBON BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 636)

4 April 2011

To the Minority Shareholders and Preference Shareholders

Dear Sir and Madam,

**PROPOSAL TO PRIVATISE
THE ORDINARY SHARE CAPITAL OF FUBON BANK (HONG KONG) LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF
THE COMPANIES ORDINANCE**

**VOLUNTARY CONDITIONAL CASH OFFER BY
UBS AG, HONG KONG BRANCH ON BEHALF OF FUBON FINANCIAL HOLDING CO., LTD.
TO ACQUIRE ALL THE ISSUED PREFERENCE SHARES OF FUBON BANK (HONG KONG) LIMITED
(OTHER THAN THOSE ALREADY OWNED BY FUBON FINANCIAL HOLDING CO., LTD
OR PARTIES ACTING IN CONCERT WITH IT)**

PROPOSED WITHDRAWAL OF LISTING OF FUBON BANK (HONG KONG) LIMITED

INTRODUCTION

We refer to the document dated 4 April 2011 jointly issued by the Company and the Offeror in relation to the Scheme Proposal and the Preference Share Offer (the “**Composite Document**”) of which this letter forms part. Terms defined in the Composite Document shall have the same meanings in this letter unless the context otherwise requires.

On 19 January 2011, the Company and the Offeror jointly announced that, (i) on 10 January 2011 the Offeror requested the Board to put forward to the Scheme Shareholders the Scheme Proposal for the privatisation of the ordinary share capital of the Company which, if approved and implemented, would result in the withdrawal of listing of the Shares on the Hong Kong Stock Exchange; and (ii) the Offeror will make, through the Financial Adviser, a voluntary conditional cash offer to acquire all the issued Preference Shares (other than those already owned by the Offeror or parties acting in concert with it).

Details of the Scheme Proposal and the Preference Share Offer are set out in the “Letter from the Board” on pages 15 to 25 of the Composite Document, and the Explanatory Statement on pages 67 to 83 of the Composite Document.

We have been appointed as members of the Independent Board Committee to consider the terms of the Scheme Proposal and to advise the Minority Shareholders as to whether, in our opinion, the terms of the Scheme Proposal are fair and reasonable so far as the Minority Shareholders are concerned and to consider the terms of the Preference Share Offer and to advise the Preference Shareholders as to whether, in our opinion, the terms of the Preference

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Share Offer are fair and reasonable so far as the Preference Shareholders are concerned. CLSA Equity Capital Markets Limited has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Scheme Proposal and the Preference Share Offer.

We wish to draw your attention to (i) the letter from the Independent Financial Adviser; and (ii) the additional information set out in the appendices to the Composite Document.

RECOMMENDATIONS

Having carefully considered the terms of the Scheme Proposal and the Preference Share Offer, and having taken into account the opinion of the Independent Financial Adviser and, in particular, the factors, reasons and recommendations as set out in the letter from the Independent Financial Adviser on pages 38 to 66 of the Composite Document, we consider that the terms of the Scheme Proposal are fair and reasonable so far as the Minority Shareholders are concerned and the terms of the Preference Share Offer are fair and reasonable so far as the Preference Shareholders are concerned. Accordingly, we recommend the Minority Shareholders to vote in favour of the relevant resolutions which will be proposed at the Court Meeting and the Extraordinary General Meeting to approve and implement the Scheme of Arrangement and the Preference Shareholders to accept the Preference Share Offer.

Yours faithfully,
the Independent Board Committee

Mr. Robert James Kenrick
*Independent Non-executive
Director*

Mr. Moses Tsang
*Independent Non-executive
Director*

Mr. Hung Shih
*Independent Non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

To the Independent Board Committee of Fubon Bank (Hong Kong) Limited



4 April 2011

Dear Sirs,

**PROPOSAL TO PRIVATISE
THE ORDINARY SHARE CAPITAL OF FUBON BANK (HONG KONG) LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF
THE COMPANIES ORDINANCE**

**VOLUNTARY CONDITIONAL CASH OFFER BY
UBS AG, HONG KONG BRANCH ON BEHALF OF FUBON FINANCIAL HOLDING CO., LTD.
TO ACQUIRE ALL THE ISSUED PREFERENCE SHARES OF FUBON BANK (HONG KONG) LIMITED
(OTHER THAN THOSE ALREADY OWNED BY FUBON FINANCIAL HOLDING CO., LTD
OR PARTIES ACTING IN CONCERT WITH IT)**

PROPOSED WITHDRAWAL OF LISTING OF FUBON BANK (HONG KONG) LIMITED

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and (i) the Minority Shareholders as to whether or not the terms and conditions of the proposal to privatise the Company by the Offeror by way of a Scheme of Arrangement (the "Scheme Proposal"), and particularly, the cancellation consideration of HK\$5.20 in cash for every Scheme Share (the "Cancellation Consideration") is fair and reasonable so far as the Minority Shareholders are concerned and as to voting of the resolution to approve the Scheme of Arrangement at the Court Meeting and the special resolution to approve and give effect to the Scheme of Arrangement at the Extraordinary General Meeting; and (ii) the Preference Shareholders as to the terms and conditions of Preference Shares Offer is fair and reasonable so far as the Preference Shareholders are concerned and as to the acceptance of the Preference Share Offer.

This letter has been prepared for inclusion in the document dated 4 April 2011 jointly issued by the Offeror and the Company in relation to the Scheme Proposal and the Preference Share Offer (the "Scheme Document"). Capitalised terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context otherwise requires.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee consists of Mr. Robert James Kenrick, Mr. Moses Tsang and Mr. Hung Shih, all being independent non-executive Directors. The Independent Board Committee is constituted to advise the Minority Shareholders in connection with the Scheme Proposal and the Preference Shareholders in connection with the Preference Share Offer. As for the other non-executive Directors, (1) Mr. Ming-Hsing (Richard) Tsai is a

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

director and Vice Chairman of the Offeror; (2) Mr. Ming-Chung (Daniel) Tsai is a director and Chairman of the Offeror; (3) Mr. Victor Kung is a director and president of the Offeror; (4) Mr. David Chang Kuo-Chun and Mr. Michael Chang Ming-Yuen are senior consultants of the Offeror. In compliance with Rule 2.8 of the Takeovers Code, they have not been included in the Independent Board Committee so as to avoid any or any possible conflict of interests. We have been appointed as the independent financial adviser to advise the Independent Board Committee on the Scheme Proposal and the Preference Share Offer.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Scheme Proposal and the Preference Share Offer, we have relied on the information, opinions and facts supplied, and representations made, to us by the Directors and representatives of the Company (including those contained or referred to in the Scheme Document, the Announcement and the Second Announcement (defined below). We have assumed that all such information, opinions, facts and representations which have been provided to us by the Directors and representatives of the Company, and for which they are wholly responsible, are true and accurate in all material respects. We have also relied on certain information available to the public and we have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. Further, we have relied on the representations of the Directors that they have made all reasonable inquiries, and that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement contained in the Scheme Document, the Announcement and the Second Announcement untrue or misleading. We have also assumed that statements and representations made or referred to in the Scheme Document, the Announcement and the Second Announcement were accurate at the time they were made and continue to be accurate at the date of dispatch of the Scheme Document. Our opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information publicly available to us as of, the date of this letter. As a result, circumstances could develop prior to completion of the Scheme Proposal and the Preference Share Offer that, if known to us at the time we rendered our opinion, would have altered our opinion. Should there be any subsequent major changes which occur up to the date throughout the offer period and would affect or alter our opinion, we will notify the Independent Board Committee, the Minority Shareholders and the Preference Shareholders accordingly as soon as possible.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Scheme Proposal and the Preference Share Offer to justify our recommendation, relying on the accuracy of the information provided in the Scheme Document, the Announcement and the Second Announcement to provide a reasonable basis for our advice. As the independent financial adviser to the Independent Board Committee, we have not been involved in the negotiations in respect of the terms and conditions of the Scheme Proposal and the Preference Share Offer. Our opinion with regard to the terms and conditions thereof has been made on the assumption that all obligations to be performed by the Company and the Offeror in relation to the Scheme Proposal and the Preference Share Offer will be fully performed in accordance with the terms and conditions thereof. Further, we have no reason to suspect that any material facts or information have been omitted or withheld from the information supplied or opinions expressed to us nor to doubt the truth,

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accuracy and completeness of the information, facts and representations provided, or the reasonableness of the opinions expressed, to us by the Company, the Directors and the other representatives of the Company. In line with normal practice, we have not, however, made any independent verification of the information and facts provided, representations made or opinions expressed by the Company, the Directors and the other representatives, nor have we conducted any form of independent investigation into the business affairs or assets and liabilities of the Group. Accordingly, we do not warrant the accuracy or completeness of any such information.

In rendering our opinion, we have not considered the tax implications for the Minority Shareholders and the Preference Shareholders of acceptances or non-acceptances of the Scheme Proposal and the Preference Share Offer since these are particular to their individual circumstances. The Minority Shareholders and Preference Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

Our opinion is also subject to the following qualifications:

- (i) It is not possible to confirm whether or not the Scheme Proposal and/or the Preference Share Offer is in the interests of each individual Minority Shareholder and/or Preference Shareholder, respectively, and each Minority Shareholder should consider his/her/its vote on the merits or otherwise of the Scheme Proposal in his/her/its own circumstances and from his/her/its own point of view having regard to all the circumstances (and not only the financial perspective offered in this letter) as well as his/her/its own investment objectives;
- (ii) We express no opinion as to whether the Scheme Proposal and the Preference Share Offer will be completed nor whether it will be successful;
- (iii) Nothing contained in this letter should be construed as us expressing any view as to the trading price or market trends of any securities of the Company at any particular time; and
- (iv) Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any securities in the Company.

This letter is for the information of the Independent Board Committee solely in connection with their consideration of the Scheme Proposal and the Preference Share Offer and, except for its inclusion in the Scheme Document and for references thereto in the letter from the Independent Board Committee set out in the Scheme Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

CLSA is a licensed securities adviser and corporate finance adviser under the SFO and we, together with our affiliates, provide a full range of investment banking and brokerage services, which, in the course of normal trading activities, may from time to time effect transactions and hold securities, including derivative securities, of the Company, its

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subsidiaries or its substantial shareholder (as defined in the Hong Kong Listing Rules) or those of the Offeror for the accounts of customers. Our parent company, Credit Agricole Corporate and Investment Bank, as part of its commercial banking activities, engages in forex hedging, structured product sales and other banking activities with certain subsidiaries of the Offeror and with the Company during the past two years. Revenues generated from these activities in the past two years were not material to Credit Agricole Corporate and Investment Bank. CLSA will receive a fee from the Company for rendering this opinion. The Company has also agreed to indemnify CLSA and certain related persons against liabilities and expenses in connection with this engagement.

BACKGROUND OF THE SCHEME PROPOSAL AND THE PREFERENCE SHARE OFFER

It was jointly announced by the Offeror and the Company on 19 January 2011 that on 10 January 2011 (i) the Offeror had requested the Board to put forward to the Scheme Shareholders the Scheme Proposal for the privatisation of the ordinary share capital of the Company which, if approved and implemented, would result in the withdrawal of listing of the Shares on the Hong Kong Stock Exchange; and (ii) the Offeror will make, through the Financial Adviser, a voluntary conditional cash offer to acquire all the issued Preference Shares (other than those already owned by the Offeror or parties acting in concert with it).

Following a meeting of the Board on 12 January 2011, the Board agreed to put forward the Scheme Proposal for consideration by the Scheme Shareholders.

On 15 March 2011, it was further announced by the Offeror and the Company jointly that the Offeror had requested the Board to put forward to the Scheme Shareholders a revised Scheme Proposal whereby the Cancellation Consideration would be increased from HK\$5.00 to HK\$5.20 but will all other terms remaining unchanged and terms of the Preference Share Offer remaining unchanged (“Second Announcement”). The Offeror also confirmed in the Second Announcement that there would be no further revision to the Cancellation Consideration.

Following a meeting held on 15 March 2011, the Board agreed to put forward the revised Scheme Proposal for consideration by the Scheme Shareholders.

As at the Latest Practicable Date, the Offeror owned 879,120,000 Shares, representing 75% of the issued Shares and 1,133,662,994 Preference Shares, representing approximately 96.72% of the issued Preference Shares. The proposed privatisation of the ordinary share capital of the Company will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror, and the listing of the Shares will be withdrawn from the Hong Kong Stock Exchange.

The Preference Share Offer will be subject to and conditional upon the Scheme of Arrangement becoming effective. By accepting the Preference Share Offer, the Preference Shareholders will sell their Preference Shares to the Offeror free from all liens, claims,

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encumbrances and together with all rights attaching to the Preference Shares as at the Closing Date, including the right to receive all dividends accrued but unpaid and distribution identified as payable to the Preference Shareholders on the Closing Date.

Please also refer to the “Explanatory Statement” included in the Scheme Document for brief introductions of the Offeror and the Company.

THE SCHEME PROPOSAL AND THE PREFERENCE SHARE OFFER

Terms of the Scheme Proposal

As stated in the “Letter from the Board” in the Scheme Document, subject to the Conditions described in the “Explanatory Statement” in the Scheme Document being fulfilled or waived (as applicable), the proposed privatisation of the ordinary share capital of the Company will be implemented by way of the Scheme of Arrangement.

If the Scheme of Arrangement becomes effective, the Scheme Shareholders will receive from the Offeror as Cancellation Consideration HK\$5.20 in cash for every Scheme Share cancelled. Upon the Scheme of Arrangement becoming effective, all the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror. As stated in the “Letter from the Board” and the “Explanatory Statement” in the Scheme Document, the Offeror has advised that the Cancellation Consideration will not be revised in the course of the Scheme of Arrangement and the Offeror does not reserve the right to do so.

On the implementation of the Scheme of Arrangement and withdrawal of listing, the Company will be converted into a private company wholly-owned by the Offeror.

Further terms of the Scheme Proposal, including the procedures for acceptances, are set out in the “Explanatory Statement” in the Scheme Document.

Terms of the Preference Share Offer

As stated in the “Letter from the Board” in the Scheme Document, the Preference Share Offer will be made on the basis of a cash price per Preference Share in US dollars which equals the sum of (i) US\$0.10237, being the par value of each Preference Share; (ii) an amount representing the accrued but unpaid dividend calculated at the fixed rate of 9% per annum as provided for in the Articles for the period from 15 December 2010 to and including the Effective Date; and (iii) an amount representing the future dividend calculated at the fixed rate of 9% per annum as provided for in the Articles for the period from the Effective Date to and including 24 December 2013, such future dividend to be discounted by applying a discount rate of 6% per annum, with the discount calculated with reference to the dividend payment schedule provided for in the Articles.

For the avoidance of doubt, the accrued but unpaid dividend for the period from 15 December 2010 to and including the Effective Date equals the dividend that Preference Shareholders are entitled to pursuant to the Articles for such dividend less any dividend paid or payable by Fubon Bank to the Preference Shareholders at any time during such period or

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in respect of such period, including the cumulative preferential dividend at the fixed rate of 9% per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on 15 June 2011.

As stated in the “Letter from the Board” in the Scheme Document, assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; and (ii) save for the cumulative preferential dividend at the fixed rate of 9% per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on or before 15 June 2011 and in any event before the Closing Date, no other dividend has been or will be paid to the Preference Shareholders from the 16 December 2010 to the Closing Date, the offer price per Preference Share will be US\$0.123793.

Conditions of the Scheme Proposal and the Preference Share Offer

Scheme of Arrangement

The Scheme Proposal is subject to, and the Scheme of Arrangement will become effective and binding on the Company, the Offeror and all the Scheme Shareholders subject to the fulfilment or waiver, as applicable, of the following conditions:

- (a) the approval of the Scheme of Arrangement (by way of poll) by a majority in number of the Scheme Shareholders, representing not less than three-fourths in nominal value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme of Arrangement is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Minority Shareholders that are cast either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by the Minority Shareholders;
- (b) the passing of a special resolution by a majority of not less than 75% of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to give effect to the Scheme of Arrangement, including the approval of the reduction of the authorised and issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of New Shares as is equal to the number of the Scheme Shares cancelled;
- (c) the sanction of the Scheme of Arrangement (with or without modifications) and the confirmation of the reduction of the authorised and issued share capital of the Company involved in the Scheme of Arrangement by the High Court and the delivery to the Registrar of Companies of a copy of the order of the High Court for registration;

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- (d) the compliance with the procedural requirements of Section 61 and Section 166 of the Companies Ordinance in relation to the reduction of the authorised and issued share capital of the Company and the Scheme of Arrangement, respectively;
- (e) all necessary authorisations, consents and approvals (including approval in-principle) of any governmental or regulatory body (including the approvals from the FSC and the Investment Commission of the Ministry of Economic Affairs of Taiwan) in relation to the Scheme Proposal (including its implementation) or the Preference Share Offer having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, Taiwan and other relevant jurisdictions;
- (f) all necessary third party consents in relation to the Scheme Proposal or the Preference Share Offer required pursuant to any agreement to which any member of the Fubon Bank Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the Fubon Bank Group taken as a whole) having been obtained or waived by the relevant party(ies);
- (g) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Scheme Proposal or the Preference Share Offer void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Scheme Proposal or the Preference Share Offer (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Scheme Proposal or the Preference Share Offer);
- (h) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the Relevant Authorities which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the Scheme Proposal or the Preference Share Offer or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the Scheme of Arrangement becomes effective;
- (i) no event having occurred which would make the Scheme Proposal, the Preference Share Offer or the cancellation of the Scheme Shares void, unenforceable or illegal or which would prohibit the implementation of the Scheme Proposal or the Preference Share Offer or impose any additional material conditions or obligations with respect to the Scheme Proposal or the Preference Share Offer or any part thereof or on the cancellation of the Scheme Shares; and
- (j) since the date of the Announcement, there having been no material adverse change in the business, financial or trading position of the Fubon Bank Group, taken as a whole.

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The Offeror reserves the right to waive all or any of the conditions (except for the conditions referred to in paragraphs (a) to (e), (g) and (i) above) in whole or in part. The Company does not have the right to waive any of the conditions. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 30 September 2011 (or such later date as the Offeror and the Company may agree or (to the extent applicable) as the High Court may direct and as may be permitted under the Takeovers Code), otherwise the Scheme of Arrangement will lapse. If the Scheme of Arrangement is withdrawn, not approved or lapses, the listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn. The Offeror has applied for a waiver from compliance with Rule 15.7 of the Takeovers Codes in relation to the Scheme Proposal.

As stated in the “Explanatory Statement” in the Scheme Document, none of the conditions set out above has been satisfied as of the Latest Practicable Date, save that the approval from the FSC in respect of the condition referred to in paragraph (e) above has been obtained, and, save that the conditions referred to in paragraphs (g) to (j) above are continuing conditions, none of the conditions set out above is capable of being revoked. As of the Latest Practicable Date, there are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer.

Preference Share Offer

As stated in the “Letter from the Board” in the Scheme Document, the Preference Shares are not listed on any stock exchange. The Preference Share Offer is only subject to and conditional upon the Scheme of Arrangement becoming effective. The Preference Share Offer is not conditional upon the Offeror having received any pre-determined level of acceptances in respect of the Preference Share Offer.

As stated in the “Letter from UBS” in the Scheme Document, the Preference Shareholders who do not accept the Preference Share Offer will continue to hold the Preference Shares they own and will be entitled to the rights, including the right to receive a cumulative preferential dividend at the fixed rate of 9% per annum, attached to the Preference Shares. However, if the Scheme of Arrangement becomes effective, the Offeror intends to seek the prior consent of the HKMA and conditional upon the Company being able to redeem the Preference Shares and remain solvent immediately thereafter, the Offeror intends to procure the Company to redeem the Preference Shares on or shortly after 24 December 2013.

Please also refer to the “Letter from the Board”, “Letter from UBS” and “Explanatory Statement” included in the Scheme Document for further details.

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PRINCIPAL FACTORS CONSIDERED

In arriving at our recommendation to the Independent Board Committee with regard to the Scheme Proposal and the Preference Share Offer, we have taken into consideration, inter alia, the following factors:

1. Background and Historical Financial Performance of the Company

The Company is a licensed bank incorporated in Hong Kong, the Shares of which are listed on the Hong Kong Stock Exchange. The Company is principally engaged in a wide range of financial services encompassing wealth management, consumer and wholesale banking, financial markets, securities brokerage and investment services. The Company offers banking services in Hong Kong through 24 retail distribution outlets, including 22 branches and 2 securities services centres.

In 2004, Fubon Financial acquired International Bank of Asia Limited through a voluntary conditional cash offer at a consideration of HK\$3.68 per share, represented a price to the latest published audited net asset value prior to announcement of the offer of approximately 1.15 times. After completion of the offer, International Bank of Asia Limited changed its name to “Fubon Bank (Hong Kong) Limited”, the Company.

The financial information relating to the Company is set out in Appendix I to the Scheme Document.

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Set out below is a summary of the published audited consolidated financial results of the Fubon Bank Group for the two financial years ended 31 December 2009 and 2010 and a brief review of the financial performance of the Fubon Bank Group during the period.

	Financial year ended	
	31 December	
	2009	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net interest income	1,142,504	852,520
Net fee and commission income	210,368	257,192
Revaluation loss on collateralised debt obligations	(681)	(13,673)
Other operating income	<u>68,476</u>	<u>42,074</u>
 Operating income	 <u>1,420,667</u>	 <u>1,138,113</u>
 Operating profit before gains and impairment losses	 466,371	 281,961
Impairment losses	(546,958)	(46,719)
Profit before taxation	26,651	312,541
Profit for the year	22,534	266,293
Profit attributable to:		
– Equity holders of the Company	22,995	266,966
– Non-controlling interests	<u>(461)</u>	<u>(673)</u>
 (Loss) / Earnings per Share (Hong Kong cents)	 <u>(5.16)</u>	 <u>15.62</u>

Operating income

Operating income decreased from approximately HK\$1,420.7 million in 2009 to approximately HK\$1,138.1 million in 2010 mainly attributable to (i) the decrease in net interest income from approximately HK\$1,142.5 million to approximately HK\$852.5 million; (ii) the increase in revaluation loss on collateralised debt obligations from approximately HK\$681,000 to approximately HK\$13.7 million; (iii) the decrease in other operating income from approximately HK\$68.5 million to approximately HK\$42.1 million; and (iv) partially offset by an increase in net fee and commission income from approximately HK\$210.4 million to approximately HK\$257.2 million.

As stated in the published 2010 annual report of the Company, the decline in net interest income was attributed to lower average interest-earnings assets, resulting from the gradual depletion of the high-yield hire purchase portfolio and the Fubon Bank Group taking a more cautious stance in loan underwriting during the first half of 2010. In addition, fierce price competition among peers for lending (especially in the residential mortgage business) and the switch from higher yield prime-based loans to HIBOR-based loans under the low interest rate environment had adversely impacted the Fubon Bank Group's loan yield in 2010. Moreover, credit spread tightening since the fourth quarter of 2009 caused assets to be priced at lower spreads.

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As stated in the published 2010 annual report of the Company, the Fubon Bank Group had investments in collateralised debt obligations with a nominal value of US\$30 million (2009: US\$30 million). Embedded derivatives in the collateralised debt obligations are bifurcated and marked to market. The Fubon Bank Group recorded a revaluation loss of HK\$13.7 million on the embedded derivatives during 2010.

Increase in net fee and commission income was due to higher business volumes across consumer finance, wealth management and corporate banking segments.

Operating profit before gains and impairment losses

Operating profit before gains and impairment losses decreased by 39.5% to approximately HK\$282.0 million in 2010 as compared to HK\$466.4 million in 2009 as a result of the decrease in operating income by approximately 19.9% whereas the operating expense decreased by 10.3%.

Impairment losses

Impairment losses decreased from approximately HK\$547.0 million in 2009 to approximately HK\$46.7 million in 2010. Impairment losses on advances to customers decreased from approximately HK\$484.9 million in 2009 to approximately HK\$9.7 million. As stated in the published 2010 annual report of the Company, such decline was mainly resulted from lower individual impairment losses charged on SME and hire purchase loans. In addition, improved credit quality in commercial lending led to release of collective impairment loss in 2010 compared to a charge for collective impairment loss in 2009.

Profit attributable to equity holders of the Company

Profit attributable to equity holders of the Company increased from approximately HK\$23.0 million in 2009 to approximately HK\$267.0 million in 2010. After deducting the dividend for Preference Shares of approximately HK\$83.9 million, the profit attributable to ordinary shareholders of the Company was approximately HK\$183.1 million (2009: loss attributable to ordinary shareholders of the Company of HK\$60.5 million).

Earnings / (Loss) per Share

In 2010, the Company generated earnings per Share of 15.62 Hong Kong cents as opposed to a loss per Share of 5.16 Hong Kong cents in 2009 after accounting for the dividend for Preference Shares.

Recent development relating to Lehman Brothers Minibonds

As stated in the section headed "5. Litigation" in Appendix II of the Scheme Document, the Banks and the Receivers separately announced on 28 March 2011 a final resolution proposal for the Relevant Minibonds. If the proposal is implemented, it is expected that there will be a net overall positive financial impact to the financial

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performance of the Company. This is due to an updated expected rate of recovery from the Collateral which is higher than the expected rate of recovery reflected in the accounts of the Company. The effect of this positive financial impact will to some extent be reduced because of the drawdowns that may be made under the funding arrangements described in the section.

If the payment obligations under the funding arrangements are fully utilised in the next six years, it is estimated that there would be an overall positive financial impact to the financial performance of the Company from the proposal of around HK\$4 million over the next six years. If, on the other hand, none of the contingent obligations under the funding arrangements is drawn down and utilised during the next six years, the overall positive financial impact to the financial performance over the next six years will increase to around HK\$30 million. The actual overall positive financial impact to the Company is likely to be between these two amounts.

Based on our discussion with the Company, the Directors estimate that the potential impact on the book value per Share is between 0.3 Hong Kong cents and 2.6 Hong Kong cents over the next six years, calculated based on the total issued ordinary share capital of the Company of 1,172.2 million Shares according to its latest published annual report, which is not material in relation to our analyses of the Cancellation Consideration in this letter.

2. Hong Kong Banking Environment

According to the 2009 annual report of the Hong Kong Monetary Authority, Hong Kong economy emerged from recession in second half of 2009 and continued to strengthen in 2010. GDP rose to 6.8% in 2010, according to the Census and Statistics Development in Hong Kong, and labour market conditions stabilised with unemployment rate moderated.

Local banks' financial performance started to improve. Although net interest margin narrowed due to low interest rate environment, the normalisation of capital market activities resulted in higher income from trading investment, foreign exchange operations and derivatives. The operating costs of retail banks rose mainly due to the expenses related to settlement of cases involving Lehman investment products reported by some retail banks in 2009 and increase in staff and retail expenses in 2010. The balance sheets grew notably, with asset quality registered a broad-based improvement. However, there remains significant challenges for the industry due to uncertainty in the European and United States markets. At the same time, Hong Kong banking industry continues to be competitive, in particular with net interest income constrained by a reduction in the net interest margin due to intense competition amid the low interest rate environment and the price competition in the mortgage market which continues to exert pressure on banks' profitability at least in the near term.

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3. Scheme Proposal

3.1 Historical Market Price of the Shares

In assessing the fairness and reasonableness of the Cancellation Consideration, we have (i) reviewed the historical share price of the Company; (ii) computed the premium represented by the Cancellation Consideration to the Company's historical share price performance; and (iii) compared the historical share price of the Company to the Hang Seng Financial Index and the Hang Seng Index.

Market price of the Shares

The following chart sets out the historical daily closing prices and trading volumes of the Shares traded on the Hong Kong Stock Exchange from 1 January 2006 to the Latest Practicable Date (the "Review Period"):



Source: Bloomberg, Company announcement, news publication

As set out in the chart above, the daily closing price of the Shares during the Review Period was consistently below the Cancellation Consideration of HK\$5.20 per Scheme Share except during the last quarter in 2007 and first seven months of 2008. We have indicated in the chart above certain announcements and news published during the Review Period. As indicated in the above chart, we note that during the first half in 2008, there was various market news regarding the potential acquisition of equity interest in Xiamen City Commercial Bank by the Company. From 1 January 2006 up to and including 11 October 2007, the closing price of the Shares remained below HK\$5.20. Closing price of the Shares reached HK\$5.359 on 12 October 2007. During 1 January 2006 up to and including 11 October 2007, closing price of the Shares ranged from HK\$2.324 to

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HK\$4.717 and the Cancellation Consideration represented a premium which ranges from 10.2% to 123.8% of the close price of the Shares. The closing price reached its highest of HK\$8.745 on 28 April 2008, represented a premium of 68.2% to the Cancellation Consideration. During the period from 12 October 2007 up to 27 April 2008, the closing price of Shares ranged from HK\$4.121 to HK\$7.861 and the Cancellation Consideration represented a premium from 26.2% to a discount of 33.9% to the close price of the Shares. Closing price of the Shares declined to the lowest of HK\$1.519 on 31 October 2008 and the Cancellation Consideration represented a premium of 242.3% to the closing price of the Shares. Since 31 October 2008, the closing price remained below HK\$5.20. From 1 November 2008 up to and including the Latest Practicable Date, the Cancellation Consideration represented a premium which ranges from 0.8% to 201.4% of the close price of the Shares.

Premium of the Cancellation Consideration to the historical market price of the Shares

The table below states the closing price of the Shares as at 1 April 2011, being the Latest Practicable Date, as at 7 January 2011, being the Last Trading Day on which the Shares were traded prior to the publication of the Announcement, and the average closing price for the 30, 60, 90 and 180 trading day up to and including the Last Trading Day and the premium which the Cancellation Consideration represents over such closing prices:

	Closing price/ Average closing price (HK\$)	Approximate premium of the Cancellation Consideration to the closing price/average closing price (%)
1 April 2011 – Latest Practicable Date	5.15	1.0%
Last Trading day	3.78	37.6%
30 trading days up to and including the Last Trading Day	3.63	43.3%
60 trading days up to and including the Last Trading Day	3.69	40.9%
90 trading days up to and including the Last Trading Day	3.73	39.4%
180 trading days up to and including the Last Trading Day	3.55	46.3%

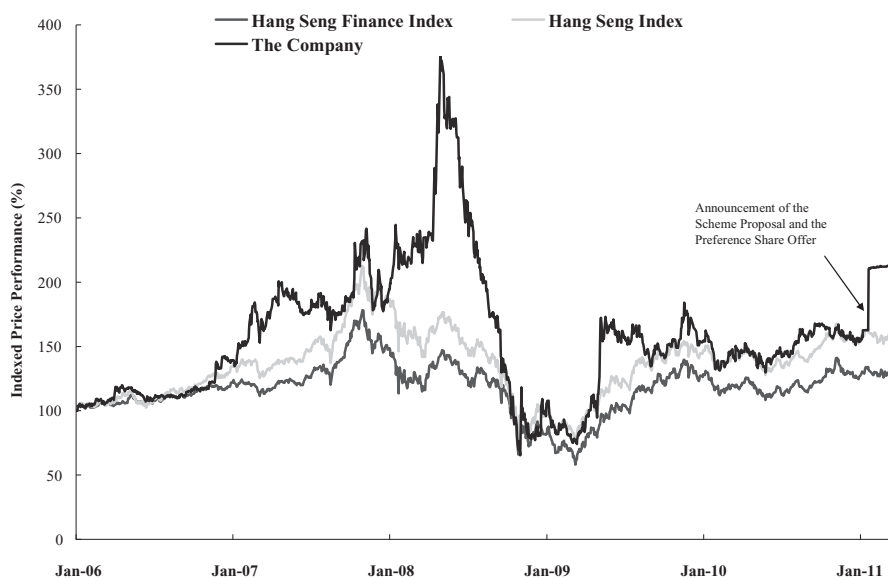
As shown in the table above, the premiums represented by the Cancellation Consideration to the closing price as at the Last Trading Day and the average closing price for the respective periods prior to and including the Last Trading Day range from approximately 37.6% to approximately 46.3%.

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Following the release of the Announcement on 19 January 2011, the trading price increased and has remained at a higher level up to the Latest Practicable Date. The closing price of the Shares increased by 29.1% to HK\$4.88 on 20 January 2011. From 20 January 2011 to the Latest Practicable Date, the closing prices of the Shares were within the range of HK\$4.88 to HK\$5.16. However, the Minority Shareholders should note that the past trading performance of the Shares should not in any way be relied upon as an indication of its future trading performance. Further, there is no assurance that the trading price of the Shares will remain at current levels if the Scheme of Arrangement does not proceed to completion and the trading price of the Shares may revert to its historical trading range before the Announcement, which may be below the Cancellation Consideration.

Rebased historical share price performance of the Company, Hang Seng Financial Index and Hang Seng Index

The following chart sets out the rebased historical closing price of the Shares, Hang Seng Financial Index and Hang Seng Index during the Review Period.



Source: Bloomberg

As set out in the chart above, except for the first half in 2008, the price performance of the Shares during the Review Period was generally in line with the performance of Hang Seng Financial Index and the Hang Seng Index. At the Cancellation Consideration, the implied increase in Share price from 1 January 2006 up to the Last Trading Date is 123.8% as compared to the Hang Seng Finance Index of 30.2% and the Hang Seng Index of 59.2% during the same period and the implied increase in Share price from 1 January 2009 to the Last Trading Date is 112.2% as compared to the Hang Seng Finance Index of 58.9% and the Hang Seng Index of 64.6% during the same period.

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3.2. Comparable Companies Trading and Operating Analysis

We have calculated the Price/Earnings (“P/E”) and Price/Book Value (“P/BV”) ratios for commercial banks that we consider to be comparable (the “Comparable Companies”) to the Company, based on (i) closing share price of each of these Comparable Companies as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date; (ii) the latest published annual earnings; and (iii) the latest published book value. We have identified and chosen all the commercial banks that are listed on the Hong Kong Stock Exchange and have operation mainly in and derived majority of their revenue from Hong Kong. We have also considered the P/BV ratio of the Company based on the closing Share price as at the Latest Practicable Date, and as implied by the Cancellation Consideration, and based on the latest published book value of the Company. The result of our calculation is set out in the table below.

Bank	Market Data		Net Income	Book Value	Market Value		Operating Performance	
	Price (HK\$)	Market Capitalisation (HK\$m)	2010 (HK\$m)	2010 (HK\$m)	P/E ¹ (x)	P/BV ² (x)	ROAE ³ (%)	ROAA ⁴ (%)
Bank of East Asia	32.90	67,281	4,224	44,243	15.93x	1.52x	10.61%	0.87%
Hang Seng Bank	124.40	237,833	14,917	70,012	15.94x	3.40x	22.57%	1.71%
Bank of China Hong Kong	25.05	264,848	16,196	115,181	16.35x	2.30x	14.77%	1.13%
Wing Hang Bank	91.10	26,901	1,626	14,279	16.54x	1.88x	12.14%	1.06%
Dah Sing Banking Group	12.06	14,749	1,074	14,528	13.73x	1.09x	8.84%	0.88%
Chong Hing Bank	20.05	8,722	476	6,578	18.32x	1.33x	7.47%	0.66%
Public Financial Holdings	4.85	5,325	450	6,065	11.82x	0.88x	7.57%	1.13%
Maximum					18.32x	3.40x	22.57%	1.71%
Minimum					11.82x	0.88x	7.47%	0.66%
Median					15.94x	1.52x	10.61%	1.06%
Average					15.52x	1.77x	12.00%	1.06%
The Company ^{5, 6, 7} (at Cancellation Consideration)	5.20	6,095	183	4,167	33.29x	1.46x	4.48%	0.30%
The Company ^{5, 6, 7} (price as at the Latest Practicable Date)	5.15	6,037	183	4,167	32.97x	1.45x	4.48%	0.30%

Source: Published audited financial statements, Bloomberg

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Note:

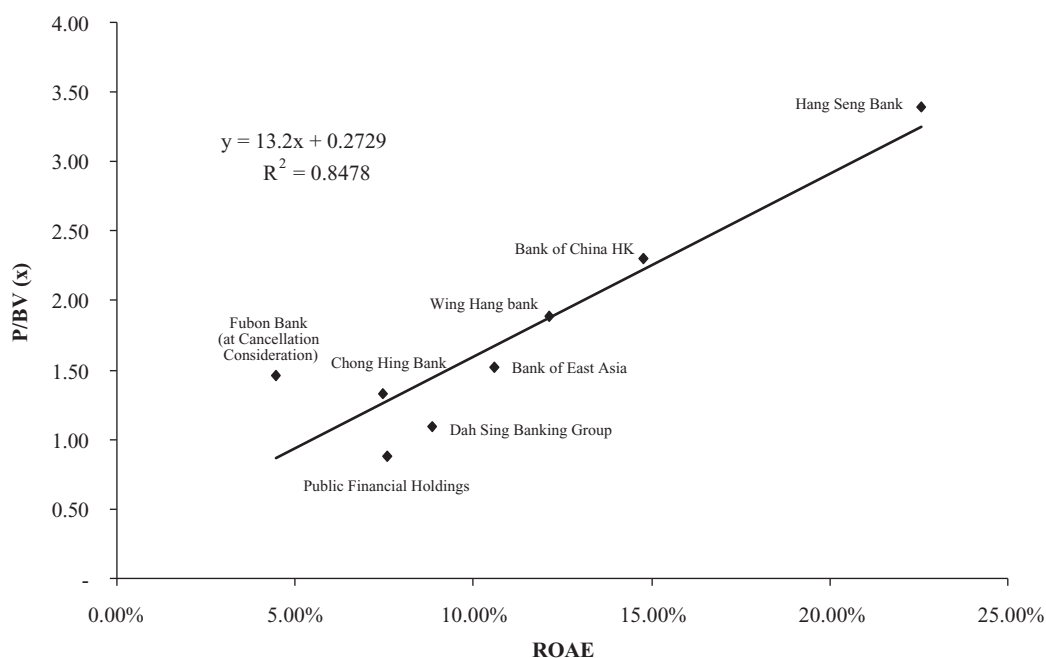
1. P/E is calculated based upon (i) the closing share price of each of the Comparable Companies as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date; and (ii) the earnings of the Comparable Company as extracted from the latest published audited annual financial statements.
2. P/BV is calculated based upon (i) the closing share price of each of the Comparable Companies as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date; and (ii) the book value of the Comparable Company as extracted from the latest published audited annual financial statements.
3. ROAE is calculated based upon (i) the profit attributable to equity holders; and (ii) the average total equity at the beginning and end of the year, as extracted from the latest published audited annual financial statements.
4. ROAA is calculated based upon (i) the profit attributable to equity holders; and (ii) the average total assets at the beginning and end of the year, as extracted from the latest published audited annual financial statements.
5. P/E of the Company is calculated based upon (i) the closing price of the Shares as at the Latest Practicable Date or Cancellation Consideration, where applicable; and (ii) the earnings of the Company less dividend on Preference Shares of approximately HK\$83.9 million as extracted from the latest published audited annual financial statements.
6. P/BV of the Company is calculated based upon (i) the closing price of the Shares as at the Latest Practicable Date or the Cancellation Consideration, where applicable; and (ii) the book value of the Company less Preference Shares capital as extracted from the latest published audited annual financial statements.
7. ROAE and ROAA of the Company are calculated based upon (i) the profit attributable to ordinary shareholders for the year ended 31 December 2010 after deducting the dividend for Preference Shares of approximately HK\$83.9 million; and (ii) the average total equity less Preference Shares capital/average total assets (where appropriate) at the beginning and end of the year, as extracted from the latest published audited annual financial statements.

As shown in the table above, the P/E ratio of the Company implied by the Cancellation Consideration are the highest among the Comparable Companies, which suggest that, insofar as the P/E ratio is concerned, the Cancellation Consideration appears attractive as compared to the share price of the Comparable Companies relative to their respective earnings, and P/BV ratio of the Company implied by the Cancellation Consideration are within the range of P/BV ratio of the Comparable Companies. When compare with the median and average P/E ratios of the Comparable Companies, we note that the P/E ratio of the Company implied by the Cancellation Consideration is 17.35x and 17.77x higher than the median and average P/E ratios, respectively, of the Comparable Companies but the P/BV ratio of the Company implied by the Cancellation Consideration is 0.06x and 0.31x lower than the median and average P/BV ratios, respectively, of the Comparable Companies.

In order to assess whether a lower than median and average P/BV ratios is justifiable, we have further looked at the current profitability of the Company and the Comparable Companies and the relationship between the Return on Average Equity (“ROAE”) ratio and P/BV ratio. As stated in the chart above, we note that the ROAE ratio and the Return on Average Assets (“ROAA”) ratio of the Company are the lowest among the Comparable Companies which imply the Company is relatively less efficient

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in generating profit as compared to the Comparable Companies. We then compare the ROAE ratios and P/BV ratios of the Comparable Companies and the Company using a regression analysis. The graph below illustrates a strong correlation between the P/BV ratios and ROAE ratios of the Comparable Companies and the Company, which indicate a lower ROAE ratio would statistically correspond to a lower P/BV. The chart below also shows that the P/BV ratio of the Company, implied by the Cancellation Consideration, is at a premium to (i.e. above) the regression line, taking into account its ROAE level. Based on the above, taking into account that the Company is less efficient in generating profit as compared to the Comparable Companies, i.e. lower ROAE ratio and ROAA ratio, we consider that a lower P/BV ratio as implied by the Cancellation Consideration is justifiable.



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3.3. Comparison with Privatisation Precedents in Hong Kong

As identified from the information publicly available on the Hong Kong Stock Exchange website, set out in the table below are all the privatisation proposals that (i) involve companies listed on the Hong Kong Stock Exchange; (ii) were announced since 1 January 2008 and up to the Latest Practicable Date; and (iii) have been successfully completed (the “**Privatisation Precedents**”). The table illustrates the range of premiums/discounts to the then prevailing market prices prior to the announcement of the privatisation over the periods indicated.

Date of initial announcement	Company	offer/ cancellation price	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of privatisation				Principal business of targets	Transaction background ¹
			Last trading day	30 trading days	90 trading days	180 trading days		
28-Feb-08	Mirabell International Holdings Limited (1179)	6.00	15.2%	17.7%	15.0%	36.8%	Retail, wholesale and manufacturing of footwear	b
02-Jun-08	Wing Lung Bank Limited (96)	156.50	6.2%	9.7%	35.8%	58.0%	Banking and financial services	c
02-Jun-08	China Netcom Group Cooperation (Hong Kong) Limited (906)	27.87	3.0%	17.3%	18.3%	22.2%	Telecommunication	a
10-Jun-08	CITIC International Financial Holdings Limited (183)	7.60	33.3%	46.1%	71.3%	51.1%	Banking and financial services	a
03-Dec-08	GST Holdings Limited (416)	3.38	77.9%	93.5%	52.5%	43.9%	Development, manufacturing, sale and installation of intelligent fire detection and control systems, automatic and intelligent security systems for residential, commercial and industrial uses	b
22-Dec-08	Shaw Brothers (Hong Kong) Limited (80)	13.35	64.2%	69.9%	19.6%	-13.4%	Investment holding and making investments in media and entertainment industries	a
12-Mar-09	Delta Networks, Inc. (722)	2.20	43.8%	80.3%	96.4%	32.7%	Design and manufacturing of a wide range of networking products, such as switches, broad bands access products, wireless adaptors and routers	a
19-May-09	Nam Tai Electronic & Electrical Products Limited (2633)	1.52	2.0%	6.3%	68.2%	60.4%	Consumer electric and communication products, telecommunication component assembly and LCD products	b

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Date of initial announcement	Company	offer/ cancellation price	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of privatisation				Principal business of targets	Transaction background ¹
			Last trading day	30 trading days	90 trading days	180 trading days		
22-May-09	The Ming An (Holdings) Company Limited (1389)	1.30	44.4%	55.1%	60.8%	64.1%	Property and casualty insurance companies in Hong Kong and the PRC	a
25-May-09	Stone Group Holdings Limited (409)	0.48	39.1%	48.1%	69.5%	68.9%	Distribution of a range of healthcare products and the manufacture, distribution and selling of electronic and electrical products, office equipment and the operation of an internet cafe chain in the PRC	a
08-Jan-10	Hutchison Telecommunications International Limited (2332)	2.20	36.6%	38.5%	37.2%	32.4%	Telecommunication	a
27-Apr-10	Wheelock Properties Limited (49)	13.00	143.9%	162.3%	162.2%	155.2%	Real estate development	a
19-May-10	Denway Motors Limited (203)	5.42	18.9%	27.4%	21.5%	28.5%	Manufacturing, assembly and trading of motor vehicles and the manufacturing and trading of automotive equipment and parts of the PRC	a
13-Aug-10	Integrated Distribution Services Group Limited (2387)	21.00	36.2%	45.1%	51.1%	60.7%	Provision of logistics services, and distribution of fast moving consumer goods and healthcare products and manufacturing	a
10-Aug-10	ICBC Asia (349)	29.45	27.8%	41.2%	48.7%	59.1%	Banking and financial services	a
Maximum			143.9%	162.3%	162.2%	155.2%		
Minimum			2.0%	6.3%	5.0%	-13.4%		
Median			36.2%	45.1%	51.1%	51.1%		
Average			43.0%	54.0%	58.7%	53.0%		
Adjusted Average ²			32.0%	42.6%	47.6%	43.2%		
10-Jan-11	The Company (636)	5.20	37.6%	43.3%	39.4%	46.3%		a

Source: Announcements and scheme documents dispatched by the relevant companies, Bloomberg

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Notes:

1. a means “scheme of arrangement”; b means “voluntary conditional offer” and c means “unconditional mandatory offer”.
2. The adjusted average is calculated after excluding the privatisation of Wheelock Properties Limited as an outlier as the cancellation price represented significant premiums to the market closing prices over the average of the premiums of the other Privatisation Precedents.

As set out in the table above, the premiums represented by the Cancellation Consideration, being approximately 37.6%, 43.3%, 39.4% and 46.3% for the Last Trading Day and for the periods of 30, 90 and 180 trading days up to and including the Last Trading Day respectively, are within the range of premiums observed from the Privatisation Precedents.

When compared to the adjusted average price premiums for the Privatisation Precedents, the premium represented by the Cancellation Consideration over the Share’s closing price is 5.6%, 0.7% and 3.1% higher than the adjusted average price premium for the Last Trading Day, for the period of 30 trading days and 180 trading days up to and including the Last Trading Date, but is slightly lower than the adjusted average price premium for the periods of 90 trading days up to and including the Last Trading Date by approximately 8.2%. It should be noted that the Privatisation Precedents were conducted under various market conditions and the companies involved are engaged in a variety of industry sectors. Accordingly, the premiums of offer/cancellation price of the Privatisation Precedents may be affected by factors different from those applying to the Scheme Proposal. As such, we consider that the above comparison table can only provide a general reference of the offer prices of the general offers involving general offers and privatisation proposals announced previously but should not be used in isolation in determining the fairness and reasonableness of the Cancellation Consideration.

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3.4 Precedent Transactions in the Banking Sector

We have also reviewed a number of acquisition transactions since 2006 involving commercial banks that operate in Hong Kong where the target companies were listed on the Hong Kong Stock Exchange at the time of the acquisition (“Comparable Bank Transactions”). The following table sets out our findings:

Announcement Date	Acquirer	Target	% of Shares Acquired	Transaction Value (HK\$m)	P/BV ¹ (x)	P/E ² (x)	ROAE ³ (%)	ROAA ⁴ (%)
11/23/2006	BBVA	CITIC International Financial Holdings	14.6	4,872	3.53x	30.30x	12.40%	1.30%
08/24/2007	COSCO (HK)	Chong Hing Bank	20.0	2,088	1.73x	20.70x	8.46%	0.89%
11/19/2007	Bank of China (HK)	Bank of East Asia	4.9	3,952	2.89x	23.30x	13.30%	1.29%
12/27/2007	ICBC	ICBC Asia	8.2	1,905	2.09x	18.60x	0.90%	1.00%
03/25/2008	Bank of Tokyo-Mitsubishi UFJ	Dah Sing Financial	3.3	472	1.13x	13.27x	10.20%	0.90%
06/02/2008	China Merchants Bank	Wing Lung Bank	100.0	36,338	2.91x	26.48x	11.50%	1.50%
06/10/2008	CITIC Group Ltd and BBVA ⁵	CITIC International Financial Holdings	30.3	13,272	1.66x	23.13x	7.40%	1.60%
06/11/2009	Criteria CaixaCorp SA	Bank of East Asia	5.2	3,698	2.20x	1,530.00x	0.12%	0.01%
08/13/2009	Dah Sing Financial	Dah Sing Banking	11.2	1,000	1.09x	40.00x	2.17%	0.17%
08/10/2010	ICBC	ICBC Asia	27.2	10,829	2.14x	15.10x	16.10%	1.20%
Maximum					3.53x	1,530.00x	16.10%	1.60%
Minimum					1.09x	13.27x	0.12%	0.01%
Median					2.12x	23.21x	9.33%	1.10%
Average					2.14x	174.09x	8.26%	0.99%
Adjusted average ⁶					2.13x	23.43x	9.16%	1.09%
01/10/2011	Fubon Financial	The Company ^{7, 8, 9}	25.0	1,524	1.46x	33.29x	4.48%	0.30%

Source: Published audited financial statements, announcements and scheme documents dispatched by the relevant companies, Bloomberg

Note:

1. P/BV is calculated based upon (i) the consideration paid to acquire the relevant equity interests in the respective acquisition target; and (ii) the book value of the respective acquisition target as extracted from the latest published audited annual financial statements prior to the acquisition.

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2. P/E is calculated based upon (i) the consideration paid to acquire the relevant equity interests in the respective acquisition target; and (ii) the earnings of the respective acquisition target as extracted from the published audited annual financial statements prior to the acquisition.
3. ROAE is calculated based upon (i) the profit attributable to equity holders of the respectively target; and (ii) the average total equity at the beginning and end of the year, as extracted from the latest published audited annual financial statements of the respectively target prior the acquisition.
4. ROAA is calculated based upon (i) the profit attributable to equity holders of the respectively target; and (ii) the average total assets at the beginning and end of the year, as extracted from the latest published audited annual financial statements of the respectively target prior to the acquisition.
5. The transaction in relation to CITIC International Financial Holdings Limited (“CIFH”) comprised two transactions where after acquisition of an additional 30.34% interest in and privatisation of CIFH, CITIC Group transferred 15.16% of CIFH to BBVA.
6. The adjusted average is calculated after excluding the acquisition of Bank of East Asia by Criteria CaixaCorp SA. The earnings of Bank of East Asia during 2008 was substantially lower than 2007. According to the 2008 annual report of Bank of East Asia, mainly due to a decrease in the bank’s non-interest income by HK\$3,173 million as a result of a decrease in net trading profits and disposing of or writing down to zero value its entire collateralised debt obligation portfolio, the profit after taxation of Bank of East Asia decreased substantially to approximately HK\$104 million as compared to approximately HK\$4.2 billion in 2007. In particular, it incurred a net loss on securities, foreign currencies and other trading activities of approximately HK\$1.3 billion in 2008 as compared to a profit generated from these activities of approximately HK\$1.4 billion in 2007. As a result of substantially lower earnings, the P/E ratio is at 1,530x which we considered as an outlier.
7. P/BV of the Company is calculated based upon (i) the total consideration pursuant to the Scheme Proposal; and (ii) the book value of the Company less Preference Shares capital as extracted from the latest published audited annual financial statements.
8. P/E of the Company is calculated based upon (i) the total consideration pursuant to the Scheme Proposal; and (ii) the earnings of the Company less dividend on Preference Shares of approximately HK\$83.9 million as extracted from the published audited annual financial statements.
9. ROAE and ROAA of the Company are calculated based upon (i) the profit attributable to ordinary shareholders for the year ended 31 December 2010 after deducting the dividend on Preference Shares of approximately HK\$83.9 million; and (ii) the average total equity less Preference Shares capital/average total assets (where appropriate) at the beginning and end of the year, as extracted from the latest published audited annual financial statements.

As shown in the table above, the P/E ratio of the Company implied by the Cancellation Consideration is the highest among the Comparable Bank Transactions (except for acquisition of Bank of East Asia by Criteria CaixaCorp SA which we considered as an outlier with reason stated in note 6 of the table above) and is 10.08x and 9.86x higher than the median and adjusted average P/E ratios of the Comparable Bank Transactions. The P/BV ratio implied by the Cancellation Consideration is within the range of P/BV ratios of the Comparable Bank Transactions but is 0.66x and 0.68x lower than the median and average P/BV ratios of the Comparable Bank Transactions, respectively. We further compare the P/BV ratios to the ROAE ratios and ROAA ratios of the Company and the targets of the Comparable Bank Transactions. We note that the ROAE ratio and ROAA ratio of the Company of 4.48% and 0.30% are substantially lower than the median and average ROAE ratio and ROAA ratio of the Comparable

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Bank Transactions of 9.33% and 8.26%, and 1.10% and 0.99%, respectively, which imply the Company is relevantly less efficient in generating profit as compared to the Comparable Bank Transactions. Based on the above, taking into account that the Company is less efficient in generating profit (i.e. a lower ROAE ratio and ROAA ratio) as compared to the targets of the Comparable Bank Transactions, we consider that a lower P/BV ratio as implied by the Cancellation Consideration is justifiable.

4. Analysis of Consideration of the Preference Share Offer

Subject to and conditional upon the Scheme of Arrangement becoming effective, the Preference Share Offer will be made on the basis of a cash price per Preference Share in US dollars which equals the sum of (i) US\$0.10237, being the par value of each Preference Share, (ii) an amount representing the accrued but unpaid dividend calculated at the fixed rate of 9% per annum as provided for in the Articles for the period from 15 December 2010 to and including the Effective Date, and (iii) an amount representing the future dividend calculated at the fixed rate of 9% per annum as provided for in the Articles for the period from the Effective Date to and including 24 December 2013, such future dividend to be discounted by applying a discount rate of 6% per annum, with the discount calculated with reference to the dividend payment schedule provided for in the Articles. Assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; and (ii) save for the cumulative preferential dividend at the fixed rate of 9% per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on or before 15 June 2011 and in any event before the Closing Date, no other dividend has been or will be paid to the Preference Shareholders from 16 December 2010 to the Closing Date, the offer price per Preference Share will be US\$0.123793.

As the Preference Shares are not listed on any stock exchange, there is no market value for the Preference Shares to compare against the offer price under the Preference Share Offer.

As stated in the “Letter from UBS” included in the Scheme Document, if the Scheme of Arrangement becomes effective, the Offeror intends to seek the prior consent of the HKMA and conditional upon the Company being able to redeem the Preference Shares and remain solvent immediately thereafter, the Offeror intends to procure the Company to redeem the Preference Shares on or shortly after 24 December 2013. If the Scheme Proposal does not proceed, the Offeror has no intention to procure the Company to redeem the Preference Shares on or shortly after 24 December 2013.

We have reviewed a number of instruments (the “Comparable Instruments”) issued by commercial banks that have operation mainly in Hong Kong and compared the yield to call to the discount rate of 6% applied by the Offeror to discount the further dividend to be paid to the Preference Shareholders. Yield to call is the rate of return that an investor would earn if the bond or note is held until the call date. It represents the discount rate which equates the discounted value of an instrument’s future cash flows to its current market price on the basis that the instrument is called on the call date.

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Issuer	Issue Date	Call Date	Coupon	Yield to Call	Trading Price as at the Last Trading Date
CITIC Ka Wah Bank	May-02	May-12	9.125%	4.21%	106.2500
Dah Sing Bank	Feb-07	Feb-17	6.253%	7.21%	95.3750
Bank of East Asia	Mar-07	Mar-12	6.125%	7.60%	98.3808
Wing Hang Bank	Apr-07	Apr-17	6.000%	6.40%	97.9583
Wing Hang Bank	Sep-08	Sep-13	9.375%	4.60%	111.8500
				Median	6.40%
				Average	6.00%

Source: Dealogic, Bloomberg

We note from the table above, that the yield to call of Comparable Instruments ranges from 4.21% to 7.60%. Yield to call of financial instrument differs depending on credit profile, call date, coupon, and listing status. The Preference Shares are not listed on any stock exchange whereas the Comparable Instruments are listed. All other factors being equal, a higher rate of return is usually required for financial instrument which has no established market as compared to financial instrument which is readily marketable. A high rate of return would result in a lower valuation of non-marketable financial instrument. When comparing to the yield to call of Comparable Instruments, we note that the discount rate of 6% to be applied to discount the future dividend to be paid to the Preference Shares, is within the range of the yield to call of the Comparable Instruments and is comparable to the median and average yield to call of the Comparable Instruments of 6.40% and 6.00%, respectively.

Further, we note that as stated in the “Letter from the Board” included in the Scheme Document, the offer price per Preference Share of US\$0.123793 represents a premium of approximately 20.9% over the par value of US\$0.10237 each of the Preference Share, which takes into account an estimated present value of the dividend to be paid to the Preference Share holders up to and including 24 December 2013.

5. Reasons for the Scheme Proposal and the Preference Share Offer

As stated in the “Explanatory Statement” included in the Scheme Document, the Scheme Proposal will facilitate business integration between Fubon Financial and Fubon Bank and will provide Fubon Financial with greater flexibility to support the future business development of Fubon Bank. The privatisation of Fubon Bank will simplify the shareholding structure of Fubon Bank. Upon completion of the Scheme Proposal, the listing of the Shares will be withdrawn from the Hong Kong Stock Exchange and thus the Company would no longer need to bear listing-related costs and expenses.

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As further stated in the “Explanatory Statement” included in the Scheme Document, Fubon Financial believes that the Cancellation Consideration represents a premium to the market price and provides an opportunity for the Scheme Shareholders to realise their investments immediately. Further, as stated in the “Letter from UBS” included in the Scheme Document, the Preference Share Offer provides an opportunity to the Preference Shareholders to exit Fubon Bank and have their investments realised immediately should they so wish, instead of waiting for Fubon Bank to redeem the Preference Shares at its discretion (subject to the prior consent of the HKMA) and by December 2013 at the earliest.

Please also refer to the “Letter from UBS” and “Explanatory Statement” contained in the Scheme Document for further details regarding the reasons for the proposals.

6. Funding of the Scheme Proposal and the Preference Share Offer

The total consideration payable by the Offeror under the Scheme Proposal will be approximately HK\$1,523.8 million.

Assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; (ii) all Preference Shareholders accept the Preference Share Offer; and (iii) save for the cumulative preference dividend at the fixed rate of 9% per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the Preference Shareholders on or before 15 June 2011 and in any event before the Closing Date, no other dividend has been or will be paid to the Preference Shareholders from 16 December 2010 to the Closing Date, the total cash consideration payable under the Preference Share Offer will be approximately US\$4.8 million (equivalent to approximately HK\$37.3 million).

As stated in the “Letter from the Board” in the Scheme Document, the consideration payable under the Scheme Proposal and the Preference Share Offer will be funded from the internal resources of and existing credit facility available to the Offeror. Further, as at the Latest Practicable Date, UBS AG, Hong Kong Branch, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to implement the Scheme Proposal and the Preference Share Offer in accordance with their terms.

7. Other Considerations

As stated in the “Explanatory Statement” in the Scheme Document, after the successful privatisation of the Company, the Offeror intends to continue the development of the existing business of Fubon Bank in banking and financial services in Hong Kong. It is also the intention of Fubon Financial to develop a better business integration between Fubon Financial and Fubon Bank so as to achieve an efficient allocation of resources and business development.

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We are further advised by the Directors that there will be no material impact on the Company's operation if the Scheme of Arrangement does not become effective. In particular, even if the Scheme Proposal is not to proceed, the Offeror has advised that it has no intention of disposing any of its shareholdings in the Company. The Director has also confirmed to us that, save for the Scheme Proposal, they have not received any other offer concerning the Shares starting from 8 September 2003¹ up to the Latest Practicable date, nor are they aware of any potential offer that may be made in the future. We are further advised by the Offeror that they have not received any offer to acquire all or part of its equity interest in the Company since the closing of the above-mentioned offer up to the Latest Practicable date.

CONCLUSION AND OPINION

In reaching our opinion (on the bases set out at the beginning of this letter), we have considered the above principal factors and reasons and, in particular, have taken into account the following in arriving at our opinion:

- The Cancellation Consideration represents a premium of 37.6%, 43.3%, 40.9%, 39.4% and 46.3%, respectively, over the closing price of the Shares as at the Last Trading Day and the average closing prices for 30, 60, 90 and 180 trading days up to and including the Last Trading Day;
- The historical share performance of the Company was generally in line with the trading performance of the Hang Seng Financial Index and the Hang Seng Index, and at the Cancellation Consideration, the implied increase in Share price from 1 January 2006 up to the Last Trading Date is 123.8%, which is higher as compared to the Hang Seng Financial Index of 30.2% and the Hang Seng Index of 59.2% and the implied increase in Share price from 1 January 2009 to the Last Trading Date is 112.2% as compared to the Hang Seng Finance Index of 58.9% and the Hang Seng Index of 64.6% during the same period;
- The P/E ratio of the Company implied by the Cancellation Consideration is the highest among the Comparable Companies, which suggest that, insofar as the P/E ratio is concerned, the Cancellation Consideration appears attractive to the share price of Comparable Companies relative to its respective earnings, and is above the median and average P/E ratios of the Comparable Companies as at the Latest Practicable Date;
- The P/BV ratio implied by the Cancellation Consideration is within the range of P/BV ratios and is 0.06x and 0.31x lower than the median and average P/BV ratios of the Comparable Companies as at the Latest Practicable Date, which is considered justifiable taking into account the low ROAE ratio and ROAA ratio of

¹ On 8 September 2003, an announcement was made in relation to the voluntary conditional offer to be made by Fubon Financial to acquire the shares of International Bank of Asia Limited (the predecessor company of the Company). Fubon Financial became the controlling shareholder of the Company upon completion of the offer in March 2004.

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the Company as compared to the Comparable Companies which imply that the Company is relatively less efficient in generating profit as compared to the Comparable Companies;

- When comparing the Cancellation Consideration to the closing price of the Shares as at the Last Trading Day and the average closing prices of the Shares over the last 30, 90 and 180 trading days, up to and including the Last Trading Day, the premiums represented by the Cancellation Consideration are within the range of those corresponding premiums observed from the Privatisation Precedents and, saved for the small differences in relation to the adjusted average premiums of the Privatisation Precedents over the indicated periods, are generally in line with the corresponding adjusted average premiums of the privatisation Precedents;
- The P/E ratio of the Company implied by the Cancellation Consideration is the highest among the Comparable Bank Transactions (except for acquisition of Bank of East Asia by Criteria CaixaCorp SA which we considered as an outlier with reason stated in note 6 of the table in section 3.4 of this letter) and is above the median and adjusted average P/E ratios of the Comparable Banking Transactions;
- The P/B ratio of the Company implied by the Cancellation Consideration is within the range of P/BV ratio of the Comparable Banking Transactions and is 0.66x and 0.68x lower than the median and average P/BV ratios of the Comparable Banking Transactions, which is considered justifiable taking into account the low ROAE ratio and ROAA ratio of the Company as compared to the targets of the Comparable Bank Transactions which imply the Company is relatively less efficient in generating profit as compared to the Comparable Bank Transactions; and
- The discount rate applied by the Offeror pursuant to the Preference Share Offer is within the range of the yield to call of the Comparable Instruments and is comparable to the median and average yield to call of the Comparable Instruments.

Having considered the above, we are of the opinion that the terms and conditions of the Scheme Proposal, in particular the Cancellation Consideration, are fair and reasonable so far as the Minority Shareholders are concerned and the terms and conditions of the Preference Share Offer are fair and reasonable so far as the Preference Shareholders are concerned. Our conclusion is based on the results of all the analyses taken as a whole. Accordingly, we advise the Independent Board Committee to (i) recommend to the Minority Shareholders to vote in favor of the resolution to approve the Scheme of Arrangement at the

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Court Meeting and to vote in favour of the special resolution to approve and give effect to the Scheme of Arrangement at the Extraordinary General Meeting to be convened on 29 April 2011; and (ii) recommend to the Preference Shareholders to accept the Preference Share Offer.

Yours faithfully,
For and on behalf of
CLSA Equity Capital Markets Limited
William Yeung
Managing Director of Investment Banking

EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under Section 166A of the Companies Ordinance.

INTRODUCTION

It was jointly announced by the Offeror and the Company on 19 January 2011 that on 10 January 2011 (i) the Offeror had requested the Board to put forward to the Scheme Shareholders the Scheme Proposal for the privatisation of the ordinary share capital of the Company which, if approved and implemented, would result in the withdrawal of listing of the Shares on the Hong Kong Stock Exchange; and (ii) the Offeror would make, through the Financial Adviser, a voluntary conditional cash offer to acquire all the issued Preference Shares (other than those already owned by the Offeror or parties acting in concert with it). On 15 March 2011, it was further announced by the Offeror and the Company jointly that the Offeror had requested the Board to put forward to the Scheme Shareholders a revised Scheme Proposal whereby the Cancellation Consideration would be increased from HK\$5.00 to HK\$5.20 but with all other terms remaining unchanged and terms of the Preference Share Offer remaining unchanged. The Offeror also confirmed in such announcement that there would be no further revision to the Cancellation Consideration.

As at the Latest Practicable Date, the Offeror owned 879,120,000 Shares, representing 75% of the issued Shares. The Board, having reviewed the Scheme Proposal, agreed to put it forward by way of this document to the Scheme Shareholders for consideration.

The primary purpose of this Explanatory Statement is to explain the terms and effects of the Scheme Proposal and, specifically, to provide the Scheme Shareholders with additional information in relation to the Scheme of Arrangement.

The proposed privatisation of the ordinary share capital of the Company will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror, and the listing of the Shares will be withdrawn from the Hong Kong Stock Exchange.

SCHEME PROPOSAL

Subject to the conditions set out in the section headed “Conditions of the Scheme Proposal and the Preference Share Offer” below being fulfilled or waived, as applicable, the proposed privatisation of the Company will be implemented by way of the Scheme of Arrangement between the Company and the Scheme Shareholders.

SCHEME OF ARRANGEMENT

The Scheme of Arrangement involves a reduction of the authorised and issued share capital of the Company by the cancellation of the Scheme Shares. Upon the reduction of capital taking effect, the authorised share capital of the Company will be restored to its former amount by the allotment and issuance at par to the Offeror credited as fully paid of the same number of New Shares as is equal to the Scheme Shares cancelled. The reserve created in the Company’s books of account as a result of the capital reduction will be applied in paying up in full at par the New Shares so issued to the Offeror. The Scheme of Arrangement provides that, in consideration of the cancellation of the Scheme Shares, the

EXPLANATORY STATEMENT

Scheme Shareholders whose names appear on the register of members of the Company at the Record Time, which is expected to be 4:00 p.m. on Tuesday, 7 June 2011, will be entitled to receive from the Offeror:

HK\$5.20 in cash for every Scheme Share cancelled.

The Offeror has advised that the Cancellation Consideration will not be revised in the course of the Scheme of Arrangement and the Offeror does not reserve the right to do so.

SHAREHOLDING STRUCTURE OF THE COMPANY

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$1,406,592,000 divided into 1,406,592,000 Shares of par value HK\$1.00 each and US\$119,994,019.20 divided into 1,172,160,000 Preference Shares of US\$0.10237 each, and the issued share capital of the Company is HK\$1,172,160,000 divided into 1,172,160,000 Shares and US\$119,994,019.20 divided into 1,172,160,000 Preference Shares.

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme of Arrangement becoming effective and closing of the Preference Share Offer (assuming that there are no other changes to the Company's shareholding structure on or prior to the Effective Date and all Preference Shareholders accept the Preference Share Offer):

Shareholders	As at the Latest Practicable Date				Upon the Scheme of Arrangement becoming effective and closing of the Preference Share Offer ^(Note)			
	Number of Shares	%	Number of Preference Shares	%	Number of Shares	%	Number of Preference Shares	%
The Offeror	879,120,000	75	1,133,662,994	96.72	1,172,160,000	100	1,172,160,000	100
Other concert parties	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
The Offeror and parties acting in concert with it	879,120,000	75	1,133,662,994	96.72	1,172,160,000	100	1,172,160,000	100
Minority Shareholders/ Preference Shareholders	293,040,000	25	38,497,006	3.28	0	0	0	0
Total issued Shares/Preference Shares	<u>1,172,160,000</u>	<u>100</u>	<u>1,172,160,000</u>	<u>100</u>	<u>1,172,160,000</u>	<u>100</u>	<u>1,172,160,000</u>	<u>100</u>

Note: assuming that there are no other changes to the Company's shareholding structure on or prior to the Effective Date and all Preference Shareholders accept the Preference Share Offer

EXPLANATORY STATEMENT

As at the Latest Practicable Date, the Offeror is interested in 879,120,000 Shares, representing 75% of the issued Shares. The Shares beneficially owned by the Offeror will not form part of the Scheme Shares and as such, will not be voted at the Court Meeting. However, the Offeror has indicated that, if the Scheme of Arrangement is approved at the Court Meeting, the Offeror will vote in favour of the special resolution to be proposed at the Extraordinary General Meeting to approve and give effect to the Scheme of Arrangement, including the approval of the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of New Shares as is equal to the number of the Scheme Shares cancelled.

As at the Latest Practicable Date, the Offeror is interested in 1,133,662,994 Preference Shares, representing approximately 96.72% of the issued Preference Shares. The remaining 38,497,006 Preference Shares in issue, representing approximately 3.28% of the issued Preference Shares, are held by the Preference Shareholders, being parties other than the Offeror or parties acting in concert with it (save for those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities). UBS (other than those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities) does not hold any Shares or Preference Shares. As at the Latest Practicable Date, none of the Directors, whether as directors or shareholders or creditors of the Company or otherwise, has any material interest in the Scheme of Arrangement.

As at the Latest Practicable Date, the Company does not have any outstanding options, warrants, derivatives or securities convertible into Shares or Preference Shares in issue.

Save as disclosed above, the Offeror and any parties acting in concert with it (save for those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities) do not hold any other Shares or Preference Shares or any options, warrants, derivatives or securities convertible into Shares or Preference Shares.

As at the Latest Practicable Date, the Minority Shareholders are interested in an aggregate of 293,040,000 Shares, representing 25% of the issued Shares, and they will be entitled to vote at the Court Meeting. As at the Latest Practicable Date, none of the Offeror or parties acting in concert with it has received any irrevocable voting commitment from the Minority Shareholders in respect of the Court Meeting.

As at the Latest Practicable Date, there are no arrangements (whether by way of option, indemnity or otherwise) in relation to Shares or Preference Shares or other securities of the Offeror which might be material to the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer.

As at the Latest Practicable Date, the Offeror and any person acting in concert with it (other than those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities) have not borrowed or lent any relevant securities of the Company (as defined in Note 4 to Rule 22 of the Takeovers Code).

EXPLANATORY STATEMENT

CONDITIONS OF THE SCHEME PROPOSAL AND THE PREFERENCE SHARE OFFER

Scheme of Arrangement

The Scheme Proposal is subject to, and the Scheme of Arrangement will become effective and binding on the Company, the Offeror and all the Scheme Shareholders subject to the fulfilment or waiver, as applicable, of the following conditions:

- (a) the approval of the Scheme of Arrangement (by way of poll) by a majority in number of the Scheme Shareholders, representing not less than three-fourths in nominal value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme of Arrangement is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Minority Shareholders that are cast either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by the Minority Shareholders;
- (b) the passing of a special resolution by a majority of not less than 75% of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to give effect to the Scheme of Arrangement, including the approval of the reduction of the authorised and issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of New Shares as is equal to the number of the Scheme Shares cancelled;
- (c) the sanction of the Scheme of Arrangement (with or without modifications) and the confirmation of the reduction of the authorised and issued share capital of the Company involved in the Scheme of Arrangement by the High Court and the delivery to the Registrar of Companies of a copy of the order of the High Court for registration;
- (d) the compliance with the procedural requirements of Section 61 and Section 166 of the Companies Ordinance in relation to the reduction of the authorised and issued share capital of the Company and the Scheme of Arrangement, respectively;
- (e) all necessary authorisations, consents and approvals (including approval in-principle) of any governmental or regulatory body (including the approvals from the FSC and the Investment Commission of the Ministry of Economic Affairs of Taiwan) in relation to the Scheme Proposal (including its implementation) or the Preference Share Offer having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, Taiwan and other relevant jurisdictions;

EXPLANATORY STATEMENT

- (f) all necessary third party consents in relation to the Scheme Proposal or the Preference Share Offer required pursuant to any agreement to which any member of the Fubon Bank Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the Fubon Bank Group taken as a whole) having been obtained or waived by the relevant party(ies);
- (g) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Scheme Proposal or the Preference Share Offer void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Scheme Proposal or the Preference Share Offer (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Scheme Proposal or the Preference Share Offer);
- (h) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the Relevant Authorities which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the Scheme Proposal or the Preference Share Offer or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the Scheme of Arrangement becomes effective;
- (i) no event having occurred which would make the Scheme Proposal, the Preference Share Offer or the cancellation of the Scheme Shares void, unenforceable or illegal or which would prohibit the implementation of the Scheme Proposal or the Preference Share Offer or impose any additional material conditions or obligations with respect to the Scheme Proposal or the Preference Share Offer or any part thereof or on the cancellation of the Scheme Shares; and
- (j) since the date of the Announcement, there having been no material adverse change in the business, financial or trading position of the Fubon Bank Group, taken as a whole.

The Offeror reserves the right to waive all or any of the conditions (except for the conditions referred to in paragraphs (a) to (e), (g) and (i) above) in whole or in part. The Company does not have the right to waive any of the conditions. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 30 September 2011 (or such later date as the Offeror and the Company may agree or (to the extent applicable) as the High Court may direct and as may be permitted under the Takeovers Code), otherwise the Scheme of Arrangement will lapse. If the Scheme of Arrangement is withdrawn, not approved or lapses, the listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn. The Offeror has applied for a waiver from compliance with Rule 15.7 of the Takeovers Codes in relation to the Scheme Proposal.

EXPLANATORY STATEMENT

None of the conditions set out above has been satisfied as of the Latest Practicable Date, save that the approval from the FSC in respect of the condition referred to in paragraph (e) above has been obtained, and, save that the conditions referred to in paragraphs (g) to (j) above are continuing conditions, none of the conditions set out above is capable of being revoked.

As of the Latest Practicable Date, there are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer.

Preference Share Offer

The Preference Shares are not listed on any stock exchange. The Preference Share Offer will only be subject to and conditional upon the Scheme of Arrangement becoming effective. The Preference Share Offer is not conditional upon the Offeror having received any pre-determined level of acceptances in respect of the Preference Share Offer.

Assuming that the above conditions are fulfilled or, as applicable, waived, the Scheme of Arrangement will become effective on the Effective Date, which is expected to be 8 June 2011, and the listing of the Shares on the Hong Kong Stock Exchange is expected to be withdrawn on the same day pursuant to Rule 6.15 of the Hong Kong Listing Rules.

An announcement will be made by the Offeror and the Company if the Scheme of Arrangement is withdrawn or lapses. Further announcements regarding the Scheme Proposal will be made as and when appropriate.

Shareholders, Preference Shareholders and potential investors should be aware that the implementation of the Scheme Proposal and the Preference Share Offer is subject to the conditions set out above being fulfilled or waived, as applicable, and thus the Scheme Proposal may or may not become effective and the Preference Share Offer may or may not proceed. Accordingly, they are advised to exercise caution when dealing in the Shares and the Preference Shares. Persons who are in any doubt as to the action they should take should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant, or other professional adviser.

CONFIRMATION OF FINANCIAL RESOURCES

The total consideration payable under the Scheme Proposal will be approximately HK\$1,523.8 million which will be funded from the internal resources of and existing credit facility available to the Offeror.

As at the Latest Practicable Date, UBS AG, Hong Kong Branch, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to implement the Scheme Proposal in accordance with its terms.

EXPLANATORY STATEMENT

REASONS FOR AND BENEFITS OF THE SCHEME PROPOSAL

The Scheme Proposal will facilitate business integration between Fubon Financial and Fubon Bank and will provide Fubon Financial with greater flexibility to support the future business development of Fubon Bank. The Offeror currently holds 75% of the total issued Shares and the Hong Kong Listing Rules require a minimum public float of 25%. The privatisation of Fubon Bank will simplify the shareholding structure of Fubon Bank.

In addition, the listing of the Shares requires Fubon Bank to bear listing-related costs and expenses. If the privatisation and the resulting withdrawal of listing of Fubon Bank are successful, these costs and expenses can be saved.

During the six-month period preceding the Last Trading Day, the highest closing price of the Shares as quoted on the Hong Kong Stock Exchange was HK\$3.92 per Share on 17 September and 27 September 2010, and the lowest closing price of the Shares as quoted on the Hong Kong Stock Exchange was HK\$3.31 per Share on 19 July and 20 July 2010. Fubon Financial believes that the Cancellation Consideration represents a premium to the market price and provides an opportunity for the Scheme Shareholders to realise their investments immediately.

CANCELLATION CONSIDERATION

Cancellation Consideration is final

The Cancellation Consideration of HK\$5.20 in cash for every Scheme Share cancelled as announced on 15 March 2011 is final and will not be revised by the Offeror.

Comparison of value and financial effects

Comparison of value

The Cancellation Consideration of HK\$5.20 in cash for every Scheme Share cancelled under the Scheme of Arrangement represents:

- (i) a premium of approximately 37.6% over the closing price of HK\$3.78 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 43.3% over the average closing price of approximately HK\$3.63 per Share as quoted on the Hong Kong Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 40.9% over the average closing price of approximately HK\$3.69 per Share as quoted on the Hong Kong Stock Exchange for 60 trading days up to and including the Last Trading Day;
- (iv) a premium of approximately 39.4% over the average closing price of approximately HK\$3.73 per Share as quoted on the Hong Kong Stock Exchange for the 90 trading days up to and including the Last Trading Day;

EXPLANATORY STATEMENT

- (v) a premium of approximately 46.2% over the audited consolidated net asset value (after deducting the issued share capital of Preference Shares as at 31 December 2010 of approximately HK\$925.4 million) of approximately HK\$3.56 per Share as at 31 December 2010; and
- (vi) a premium of approximately 1.0% over the closing price of HK\$5.15 per Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date.

Dividends

On 8 March 2011, it was announced that the Board recommended the payment of a final dividend of HK\$0.03 per Share for the year ended 31 December 2010 payable on or about 13 May 2011 to the Shareholders whose names appeared on the register of members of the Company on 29 April 2011. The recommended final dividend is subject to approval by the Shareholders at the annual general meeting of the Company to be held on 29 April 2011. Save as aforesaid, the Company does not expect to declare any other dividend to Shareholders prior to the Effective Date. Since the Scheme of Arrangement is expected to be effective on 8 June 2011, the entitlement of the Scheme Shareholders to the final dividend will not be affected.

FUTURE PLANS FOR FUBON BANK

It is the intention of Fubon Financial to continue the development of the existing business of Fubon Bank in banking and financial services in Hong Kong after the successful privatisation of the Company. It is also the intention of Fubon Financial to develop a better business integration between Fubon Financial and Fubon Bank so as to achieve an efficient allocation of resources and business development. Fubon Financial does not have any plans to make any material adjustments with respect to the assets and existing employees of Fubon Bank and its subsidiaries.

The Board notes that the Offeror has stated its intention in respect of the businesses, assets and employees of Fubon Bank and its subsidiaries upon the successful privatisation of Fubon Bank as described above in this section, and welcomes such intention.

EFFECT OF THE SCHEME PROPOSAL

If the Scheme of Arrangement is approved at the Court Meeting in accordance with the requirements of Section 166 of the Companies Ordinance and Rule 2.10 of the Takeovers Code and is sanctioned by the High Court and the other conditions set out in the paragraph headed "Conditions of the Scheme Proposal and the Preference Share Offer" are either fulfilled or (to the extent permitted) waived, then the Scheme of Arrangement will become binding on the Company and all the Scheme Shareholders.

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If the Scheme of Arrangement becomes effective:

- (i) all the Scheme Shares will be cancelled, whereupon the issued ordinary share capital of the Company will be reduced from approximately HK\$1,172.2 million to approximately HK\$879 million (assuming that there are no changes to its shareholding structure on or prior to the Effective Date) and all share certificates representing holdings of those Scheme Shares cancelled shall cease to have effect as evidence of title;
- (ii) the issued ordinary share capital of the Company will then be restored to approximately HK\$1,172.2 million by the creation of the same number of New Shares as is equal to the Scheme Shares cancelled;
- (iii) on the Effective Date, the credit which will arise in the Company's books of account as a result of the said reduction of capital will be applied in paying up in full at par the number of New Shares created (equal to the number of Scheme Shares cancelled) and such New Shares will be allotted and issued, credited as fully paid, to the Offeror; and
- (iv) the Offeror will pay the Cancellation Consideration of HK\$5.20 per Scheme Share to the Scheme Shareholders for each Scheme Share held by them at the Record Time.

Pursuant to Rule 2.3 of the Takeovers Code, if the Scheme Proposal is either not recommended by the Independent Board Committee or is not recommended as fair and reasonable by the Independent Financial Adviser, all expenses incurred by the Company in connection with the Scheme Proposal shall be borne by the Offeror if the Scheme of Arrangement is not approved. Given that the Scheme Proposal is recommended by the Independent Board Committee and is recommended as fair and reasonable by the Independent Financial Adviser, the Company has agreed that it will bear its own expenses incurred in connection with the Scheme of Arrangement, irrespective of whether the Scheme of Arrangement will become effective.

EXPLANATORY STATEMENT

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Scheme of Arrangement has become effective and the closing of the Preference Share Offer (assuming that there are no other changes to the Company's shareholding structure on or prior to the Effective Date and all Preference Shareholders accept the Preference Share Offer):

Shareholders	As at the Latest Practicable Date				Upon the Scheme of Arrangement becoming effective and closing of the Preference Share Offer ^(Note)			
	Number of Shares	%	Number of Preference Shares	%	Number of Shares	%	Number of Preference Shares	%
The Offeror	879,120,000	75	1,133,662,994	96.72	1,172,160,000	100	1,172,160,000	100
Other concert parties	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
The Offeror and parties acting in concert with it	879,120,000	75	1,133,662,994	96.72	1,172,160,000	100	1,172,160,000	100
Minority Shareholders/ Preference Shareholders	<u>293,040,000</u>	<u>25</u>	<u>38,497,006</u>	<u>3.28</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total issued Shares/Preference Shares	<u>1,172,160,000</u>	<u>100</u>	<u>1,172,160,000</u>	<u>100</u>	<u>1,172,160,000</u>	<u>100</u>	<u>1,172,160,000</u>	<u>100</u>

Note: assuming that there are no other changes to the Company's shareholding structure on or prior to the Effective Date and all Preference Shareholders accept the Preference Share Offer

If the Scheme Proposal does not proceed, the Offeror has no intention of disposing any of its shareholdings in the Company.

INFORMATION ON THE COMPANY

The Company is a licensed bank incorporated in Hong Kong, the Shares of which are listed on the Hong Kong Stock Exchange. The Company is principally engaged in a wide range of financial services encompassing wealth management, consumer and wholesale banking, financial markets, securities brokerage and investment services. The Company offers banking services in Hong Kong through 24 retail distribution outlets, including 22 branches and 2 securities services centres.

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A summary of the audited consolidated results of the Company for each of the two financial years ended 31 December 2009 and 2010 is set out below:

	For the year ended		(Decrease)
	31 December		compared to
	2010	2009	previous year
	<i>HK\$'000</i>	<i>HK\$'000</i>	%
Operating income	1,138,113	1,420,667	(19.9)
Profit before taxation	312,541	26,651	1,072.7
Profit after taxation	266,293	22,534	1,081.7
Profit attributable to Shareholders	266,966	22,995	1,061.0
Dividends ¹	58,608	35,164	66.7
Earnings per Share (<i>HK cents</i>) ²	15.62	(5.16)	N/A

Note:

1. Includes interim dividend paid during the year and final dividend proposed after the balance sheet date.
2. The earnings per share is calculated on profit attributable to shareholders of HK\$266,966,000 (2009: HK\$ HK\$22,995,000) less the preference share dividend of HK\$83,896,000 (2009: HK\$83,517,000) and 1,172,160,000 (2009: 1,172,160,000) Shares in issue during the year.

The audited consolidated net assets attributable to the Shareholders were approximately HK\$4,931.9 million as at 31 December 2009 and approximately HK\$5,092.3 million as at 31 December 2010.

The attention of the Scheme Shareholders is drawn to Appendix I of this document which sets out the financial information relating to Fubon Bank.

Based on the closing price of HK\$5.15 per Share as at the Latest Practicable Date and the total number of Shares in issue of 1,172,160,000 as at the Latest Practicable Date, the market capitalisation of the Company was approximately HK\$6,036,624,000.

INFORMATION ON FUBON FINANCIAL

Fubon Financial is a company incorporated in Taiwan with limited liability with its shares listed on the Taiwan Stock Exchange. Fubon Financial is a leading financial holding company in Taiwan. Fubon Financial and its subsidiaries provide a comprehensive range of financial products and services, including commercial banking, life insurance, general insurance, securities trading and brokerage, investment trust and asset management and are market leaders in their respective sectors. As at the end of September 2010, the total assets of Fubon Financial amounted to NT\$3.37 trillion, ranking second amongst Taiwan's publicly listed financial holding companies. As at 31 December 2010, Fubon Financial had a network of more than 600 retail outlets and more than 30,000 employees in Taiwan. As of the Latest Practicable Date, the controlling shareholders of Fubon Financial are Mr. Ming-Hsing (Richard) Tsai, Mr. Ming-Chung (Daniel) Tsai and other members of the Tsai family together holding in aggregate 32.685% interests in Fubon Financial.

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WITHDRAWAL OF THE LISTING OF THE SHARES AND THE SHARE CERTIFICATES

Upon the Scheme of Arrangement becoming effective, all of the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be 8 June 2011.

Conditional upon the approval of the Scheme of Arrangement at the Court Meeting and the passing of the special resolution to give effect to the Scheme of Arrangement at the Extraordinary General Meeting, the listing of the Shares from the Hong Kong Stock Exchange will be withdrawn in accordance with Rule 6.15 of the Hong Kong Listing Rules as soon as practicable. If the Scheme of Arrangement becomes effective on 8 June 2011, the listing of the Shares on the Hong Kong Stock Exchange is expected to be withdrawn at 9:00 a.m. on the same date.

Subject to the requirements of the Takeovers Code, the Scheme of Arrangement will lapse if any of the conditions described in the section above entitled “Conditions of the Scheme Proposal and the Preference Share Offer” has not been fulfilled or waived, as applicable, on or before 30 September 2011 or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct and as may be permitted under the Takeovers Code. The Scheme Shareholders will be notified by way of an announcement of the last day for dealing in the Shares and the Effective Date.

If the Scheme of Arrangement is withdrawn or not approved or lapses, the listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn.

The 2016 Notes and the 2020 Notes issued by Fubon Bank under the Euro Medium Term Note Programme, which are not convertible into Shares or Preference Shares, will remain listed on the Hong Kong Stock Exchange.

ENTITLEMENTS TO AND PAYMENT OF CANCELLATION CONSIDERATION

All transferees of the Shares must lodge the duly completed transfer forms, together with the relevant certificate for the Shares, with the share registrar of the Company, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hope Centre, 183 Queen’s Road East, Wanchai, Hong Kong by 4:30 p.m. on Wednesday, 1 June 2011, being the day immediately prior to the date of the closure of the register of members of the Company for determining entitlements to qualify under the Scheme of Arrangement.

Upon the Scheme of Arrangement becoming effective, the Cancellation Consideration will be paid to the Scheme Shareholders whose names appear on the register of members of the Company at the Record Time as soon as possible but in any event within ten days of the Effective Date. On the basis that the Scheme of Arrangement becomes effective on 8 June 2011, the cheques for the payment of the Cancellation Consideration will be despatched as soon as possible but in any event on or before 18 June 2011, in compliance with Rule 20.1 of the Takeovers Code. The cheques for the payment of the Cancellation Consideration will be sent to the persons entitled thereto at their respective registered addresses or, in the case

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of joint holders, to the registered address of that joint holder whose name stands first on the register of members in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and none of the Offeror, the Company and any of their respective officers or agents will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such cheques, the Offeror shall have the right to cause the cancellation of any cheque which has not been cashed or has been returned uncashed and shall place all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

Before the expiry of six years from the Effective Date, the Offeror shall make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Company that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to make any payments under the Scheme of Arrangement and the Offeror shall be absolutely entitled to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Settlement of the Cancellation Consideration to which any Scheme Shareholder is entitled will be implemented in full in accordance with the terms of the Scheme Proposal 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 Scheme Shareholder.

OVERSEAS SCHEME SHAREHOLDERS

This document has been prepared for the purposes of complying with the laws of Hong Kong, the Takeovers Code and the Hong Kong Listing Rules and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of jurisdictions outside Hong Kong.

Offers made under the Scheme Proposal to those Scheme Shareholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where such Scheme Shareholders are located. Such Scheme Shareholders should inform themselves about and observe any applicable legal and regulatory requirements of their own jurisdictions. It is the responsibility of any overseas Scheme Shareholders wishing to accept the offers under the Scheme Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

The Offeror reserves the right to make arrangements in respect of Scheme Shareholders who are not resident in Hong Kong in relation to the terms of the Scheme Proposal. Such arrangements may include notifying any matter in connection with the Scheme Proposal to the Scheme Shareholders having a registered overseas address by announcement or by

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advertisement in a newspaper which may or may not be circulated in the jurisdiction within which such persons are resident. The notice will be deemed to have been sufficiently given, despite any failure by such Scheme Shareholders to receive or see that notice.

TAXATION AND INDEPENDENT ADVICE

As the cancellation of the Scheme Shares upon the Scheme of Arrangement becoming effective does not involve the sale and purchase of any Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong, in this respect.

The Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Scheme Proposal and, in particular, whether the receipt of the Cancellation Consideration will make them liable to taxation in Hong Kong or in other jurisdictions.

It is emphasised that none of the Company, the Offeror, UBS, the Independent Financial Adviser, any of their respective directors, officers, employees, agents, affiliates or advisers and any other person involved in the Scheme Proposal accepts responsibility for any taxation or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Scheme Proposal.

COURT MEETING AND EXTRAORDINARY GENERAL MEETING

The High Court has directed that the Court Meeting be convened for the purpose of considering and, if thought fit, approving the Scheme of Arrangement (with or without modification). Only the Minority Shareholders will be entitled to attend and vote at the Court Meeting under Rule 2.10 of the Takeovers Code. Shares owned by concert parties, including members of the group of companies of UBS, will not be voted at the Court Meeting.

Immediately following the conclusion of the Court Meeting, the Extraordinary General Meeting will be held for the purpose of considering and, if thought fit, passing the special resolution to give effect to the Scheme of Arrangement, including the reduction of the ordinary share capital of the Company. All Shareholders will be entitled to attend and vote in respect of the special resolution at the Extraordinary General Meeting. If the Scheme of Arrangement is approved at the Court Meeting, the Offeror and its concert parties have indicated that their respective Shares will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting.

Notice of the Court Meeting is set out on pages CM-1 to CM-3 of this document. The Court Meeting will be held on 29 April 2011 at the time and place specified in the notice.

Notice of the Extraordinary General Meeting is set out on pages EGM-1 to EGM-3 of this document. The Extraordinary General Meeting will be held at the same place and date at 10:30 a.m. or immediately after the conclusion or adjournment of the Court Meeting.

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For the avoidance of doubt, the Articles relating to general meetings do not apply to the Court Meeting, which must be convened and held in accordance with the directions of the High Court.

ACTIONS TO BE TAKEN

A **pink** form of proxy for use at the Court Meeting and a **yellow** form of proxy for use at the Extraordinary General Meeting are enclosed with this document.

Whether or not you are able to attend the Court Meeting or the Extraordinary General Meeting or any adjournment thereof in person, if you are a Minority Shareholder, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting, and if you are a Shareholder, you are strongly encouraged to complete and sign the enclosed yellow form of proxy in respect of the Extraordinary General Meeting, in accordance with the instructions printed respectively on them and deposit them, together with the power of attorney or other authority (if any), with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any case not later than the following respective times. In the case of the pink form of proxy in respect of the Court Meeting, it should be deposited not later than 10:00 a.m. on Wednesday, 27 April 2011 or it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the yellow form of proxy for use at the Extraordinary General Meeting must be deposited not later than 10:30 a.m. on Wednesday, 27 April 2011 or it may alternatively be handed to the chairman of the Extraordinary General Meeting at the Extraordinary General Meeting if it is not so lodged.

The completion and return of a form of proxy for each of the Court Meeting or the Extraordinary General Meeting will not preclude you from attending and voting in person at the Court Meeting or the Extraordinary General Meeting or any adjournment thereof. In such event, the returned form of proxy shall be deemed to have been revoked.

If you do not appoint a proxy and you do not attend and vote at the Court Meeting and/or the Extraordinary General Meeting, you will still be bound by the outcome of such Court Meeting and/or Extraordinary General Meeting. You are therefore strongly urged to attend and vote at the Court Meeting and/or the Extraordinary General Meeting in person or by proxy.

Voting at the Court Meeting and the Extraordinary General Meeting will be taken by poll as required under the Hong Kong Listing Rules and the Takeovers Code.

If a Registered Owner or Beneficial Owner in Hong Kong has questions concerning administrative matters, such as dates, documentation and procedures relating to the Scheme Proposal, please call the share registrar of the Company, Computershare Hong Kong Investor Services Limited at (852) 2862 8555 between 9:00 a.m. and 6:00 p.m. Monday to Friday. This helpline cannot and will not provide advice on the merits of the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer or give financial or legal advice.

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For the purpose of determining the entitlements of the Scheme Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from Tuesday, 26 April 2011 to Friday, 29 April 2011 (both days inclusive) and during such period, no transfer of Shares will be effected.

In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on Thursday, 21 April 2011.

An announcement will be made by the Company in relation to the results of the Court Meeting and the Extraordinary General Meeting, and if all the resolutions are passed at those meetings, further announcement(s) will be made in relation to the results of the hearing of the petition for the sanction of the Scheme of Arrangement by the High Court, the Effective Date and the date of withdrawal of the listing of the Shares from the Hong Kong Stock Exchange.

Actions to be taken by Beneficial Owners whose Shares are held by a Registered Owner or deposited in CCASS

No person shall be recognised by the Company as holding any Shares on trust.

If you are a Beneficial Owner whose Shares are registered in the name of a nominee, trustee, depository or any other authorised custodian or third party, you should contact such Registered Owner to give instructions to and/or to make arrangements with such Registered Owner as to the manner in which the Shares beneficially owned by you should be voted at the Court Meeting and/or the Extraordinary General Meeting.

If you are a Beneficial Owner who wishes to attend the Court Meeting and/or the Extraordinary General Meeting personally, you should contact the Registered Owner directly to make the appropriate arrangements with the Registered Owner to enable you to attend and vote at the Court Meeting and/or the Extraordinary General Meeting and for such purpose the Registered Owner may appoint you as its proxy.

Alternatively, if you are a Beneficial Owner who wishes to attend the Court Meeting and/or the Extraordinary General Meeting personally, you may arrange for some or all of your Shares to be transferred into your own name.

The appointment of a proxy by the Registered Owner at the relevant Court Meeting and/or the Extraordinary General Meeting shall be in accordance with all relevant provisions in the Articles.

In the case of the appointment of a proxy by the Registered Owner, the relevant forms of proxy shall be completed and signed by the Registered Owner and shall be lodged in the manner and before the latest time for lodging the relevant forms of proxy as more particularly set out in this document.

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The completion and return of a form of proxy for the Court Meeting and/or the Extraordinary General Meeting will not preclude the Registered Owner from attending and voting in person at the Court Meeting or the Extraordinary General Meeting. In such event, the returned form of proxy will be deemed to have been revoked.

If you are a Beneficial Owner whose Shares are deposited in CCASS and registered under the name of HKSCC Nominees Limited, you must, unless you are a person admitted to participate in CCASS as an Investor Participant, contact your broker, custodian, nominee or other relevant person who is, or has in turn deposited such Shares with, a CCASS participant regarding voting instructions to be given to such persons, or alternatively to arrange for some or all of such Shares to be withdrawn from CCASS and transferred into your own name, if you wish to vote in respect of the Scheme of Arrangement. The procedure for voting in respect of the Scheme of Arrangement by the Investor Participants and the Other CCASS Participants with respect to Shares registered under the name of HKSCC Nominees Limited shall be in accordance with the “General Rules of CCASS” and the “CCASS Operational Procedures” in effect from time to time.

FURTHER INFORMATION

Further information in relation to the Scheme Proposal is set out in the Appendices in this document, all of which form part of this Explanatory Statement.

Shareholders and Scheme Shareholders should rely only on the information contained in this document. None of the Company, the Offeror, UBS, the Independent Financial Adviser nor any of their respective directors, officers, employees, agents, affiliates or any persons involved in the Scheme Proposal has authorised anyone to provide you with information that is different from what is contained in this document.

LANGUAGE

In case of any inconsistency, the English language text of this document and the accompanying forms of proxy shall prevail over the Chinese language.

RECOMMENDATIONS

Your attention is drawn to the following:

- (i) the paragraph headed “Recommendation” in the letter from the Board set out on page 24 of this document;
- (ii) the letter from the Independent Board Committee set out on pages 36 to 37 of this document; and
- (iii) the letter from the Independent Financial Adviser to the Independent Board Committee set out on pages 38 to 66 of this document.

I THREE-YEAR FINANCIAL SUMMARY

Set out below is the financial information of the Fubon Bank Group for each of the three years ended 31 December 2008, 2009 and 2010, which are extracted from the audited consolidated financial statements of Fubon Bank for the years then ended. The auditor's reports issued by KPMG in respect of Fubon Bank's audited consolidated financial statements for each of the three years ended 31 December 2008, 2009 and 2010 did not contain any qualifications.

	2010	2009	2008
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)
Interest income	1,196,169	1,558,500	2,245,770
Interest expense	<u>(343,649)</u>	<u>(415,996)</u>	<u>(1,256,930)</u>
Net interest income	<u>852,520</u>	<u>1,142,504</u>	<u>988,840</u>
Fee and commission income	330,766	281,164	325,247
Fee and commission expense	<u>(73,574)</u>	<u>(70,796)</u>	<u>(60,487)</u>
Net fee and commission income	<u>257,192</u>	<u>210,368</u>	<u>264,760</u>
Revaluation loss on collateralised debt obligations	(13,673)	(681)	(128,462)
Other operating income	<u>42,074</u>	<u>68,476</u>	<u>329,528</u>
Operating income	1,138,113	1,420,667	1,454,666
Operating expenses	<u>(856,152)</u>	<u>(954,296)</u>	<u>(965,276)</u>
Operating profit before gains and impairment losses	281,961	466,371	489,390
Impairment losses on advances to customers	(9,713)	(484,917)	(309,297)
Impairment losses on available-for-sale securities	(19,472)	(67,124)	(197,482)
Impairment losses on other assets	(17,270)	–	–
(Charge for)/write back of impairment losses on advances to an associate	(681)	346	3,797
Write back of impairment losses on assets acquired under lending agreements	<u>417</u>	<u>4,737</u>	<u>(3,832)</u>
Impairment losses	<u>(46,719)</u>	<u>(546,958)</u>	<u>(506,814)</u>

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THE FUBON BANK GROUP**

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (Restated)
Net gains on disposals of available-for-sale securities	50,992	92,945	86,257
Net losses on disposals of fixed assets	(5,045)	(16)	29,123
Share of profits of an associate	<u>31,352</u>	<u>14,309</u>	<u>–</u>
Profit before taxation	312,541	26,651	97,956
Taxation	<u>(46,248)</u>	<u>(4,117)</u>	<u>2,382</u>
Profit for the year	266,293	22,534	100,338
Other comprehensive income for the year, net of tax:			
Available-for-sale securities: net movement in investment revaluation reserve	(6,766)	305,197	(217,708)
Available-for-sale securities: initial recognition of an investment	–	–	1,386
Exchange differences on translation of an associate	<u>14,434</u>	<u>67</u>	<u>–</u>
Total comprehensive income for the year	<u><u>273,961</u></u>	<u><u>327,798</u></u>	<u><u>(115,984)</u></u>
Profit attributable to:			
– Equity holders of the Bank	266,966	22,995	100,896
– Non-controlling interests	<u>(673)</u>	<u>(461)</u>	<u>(558)</u>
Profit for the year	<u><u>266,293</u></u>	<u><u>22,534</u></u>	<u><u>100,338</u></u>
Total comprehensive income attributable to:			
– Equity holders of the Bank	274,634	328,259	(115,426)
– Non-controlling interests	<u>(673)</u>	<u>(461)</u>	<u>(558)</u>
Total comprehensive income for the year	<u><u>273,961</u></u>	<u><u>327,798</u></u>	<u><u>(115,984)</u></u>
Earnings per share (<i>Hong Kong cents</i>)	15.62	(5.16)	8.43

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THE FUBON BANK GROUP

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>	2008 <i>HK\$'000</i> (Restated)
Dividends on ordinary shares			
Interim dividend declared and paid	23,443	17,582	70,330
Final dividend paid in respect of previous financial year	17,582	17,582	152,381
Final dividend proposed after the balance sheet date	<u>35,165</u>	<u>17,582</u>	<u>17,582</u>
	<u>76,190</u>	<u>52,746</u>	<u>240,293</u>
Dividends per ordinary share (<i>Hong Kong cents</i>)	<u>5.0</u>	<u>3.0</u>	<u>7.5</u>
Dividends on irredeemable cumulative preference shares			
	<u>83,887</u>	<u>81,886</u>	<u>–</u>
Dividends per preference share (<i>US cents</i>)	<u>0.92133</u>	<u>0.92133</u>	<u>–</u>

No exceptional items were recorded in the financial statements of Fubon Bank for the three financial years ended 31 December 2008, 2009 and 2010.

II AUDITED FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<i>Note</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Interest income	4(a)	1,196,169	1,558,500
Interest expense	4(b)	<u>(343,649)</u>	<u>(415,996)</u>
Net interest income		----- 852,520	----- 1,142,504
Fee and commission income	5(a)	330,766	281,164
Fee and commission expense	5(b)	<u>(73,574)</u>	<u>(70,796)</u>
Net fee and commission income		----- 257,192	----- 210,368
Revaluation loss on collateralised debt obligations	24	(13,673)	(681)
Other operating income	6	<u>42,074</u>	<u>68,476</u>
Operating income		1,138,113	1,420,667
Operating expenses	7	<u>(856,152)</u>	<u>(954,296)</u>
Operating profit before gains and impairment losses		281,961	466,371
Impairment losses on advances to customers	11	(9,713)	(484,917)
Impairment losses on available-for-sale securities	24	(19,472)	(67,124)
Impairment losses on other assets		(17,270)	-
(Charge for)/write back of impairment losses on advances to an associate	26	(681)	346
Write back of impairment losses on assets acquired under lending agreements		<u>417</u>	<u>4,737</u>
Impairment losses		----- (46,719)	----- (546,958)
Net gains on disposals of available-for-sale securities	10	50,992	92,945
Net losses on disposals of fixed assets		(5,045)	(16)
Share of profits of an associate		<u>31,352</u>	<u>14,309</u>
Profit before taxation		312,541	26,651
Taxation	12	<u>(46,248)</u>	<u>(4,117)</u>
Profit for the year		266,293	22,534

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**FINANCIAL INFORMATION RELATING TO
THE FUBON BANK GROUP**

	<i>Note</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Other comprehensive income for the year, net of tax:			
Available-for-sale securities: net movement in investment revaluation reserve	<i>13</i>	(6,766)	305,197
Exchange differences on translation of an associate		<u>14,434</u>	<u>67</u>
Total comprehensive income for the year		<u><u>273,961</u></u>	<u><u>327,798</u></u>
Profit attributable to:			
– Equity holders of the Bank		266,966	22,995
– Non-controlling interests		<u>(673)</u>	<u>(461)</u>
Profit for the year		<u><u>266,293</u></u>	<u><u>22,534</u></u>
Total comprehensive income attributable to:			
– Equity holders of the Bank		274,634	328,259
– Non-controlling interests		<u>(673)</u>	<u>(461)</u>
Total comprehensive income for the year		<u><u>273,961</u></u>	<u><u>327,798</u></u>
Earnings per share (<i>Hong Kong cents</i>)	<i>14</i>	15.62	(5.16)

Details of dividends payable to equity holders of the Bank are set out in Note 41(g).

CONSOLIDATED BALANCE SHEET

As at 31 December 2010

	<i>Note</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
ASSETS			
Cash and short-term funds	17	2,777,351	5,414,889
Balances with banks and other financial institutions	18	2,135,669	367,677
Trading securities	19	966,773	105,522
Financial assets designated at fair value through profit or loss	20	406,268	641,737
Derivative financial instruments	21(b)	491,633	632,010
Advances to customers less impairment allowances	22	28,860,971	28,571,967
Other loans and receivables	23	2,802,314	3,392,218
Accrued interest and other assets		750,435	1,511,237
Available-for-sale securities	24	18,555,834	17,939,073
Held-to-maturity investments	25	2,462,681	902,222
Interests in associates	26	532,353	386,510
Fixed assets	28	1,035,542	1,079,094
Deferred tax assets	37(b)	1,811	35,144
		<u>61,779,635</u>	<u>60,979,300</u>
LIABILITIES			
Deposits and balances of banks	30	3,382,793	2,424,903
Deposits from customers	31	46,038,161	46,602,175
Trading liabilities	32	920,695	14,275
Financial liabilities designated at fair value through profit or loss	33	263,986	201,096
Certificates of deposit issued	34	797,951	322,100
Debt securities issued	35	41,401	268,791
Derivative financial instruments	21(b)	577,314	651,896
Other liabilities	36	1,525,734	3,919,179
Deferred tax liabilities	37(b)	46	68
Subordinated notes issued	38	3,137,286	1,640,257
		<u>56,685,367</u>	<u>56,044,740</u>
EQUITY			
Share capital	39	2,097,519	2,097,519
Share premium	40	749,778	749,778
Reserves		<u>2,245,049</u>	<u>2,084,572</u>
Shareholders' funds		5,092,346	4,931,869
Non-controlling interests	42	1,922	2,691
		<u>5,094,268</u>	<u>4,934,560</u>
		<u>61,779,635</u>	<u>60,979,300</u>

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BALANCE SHEET
As at 31 December 2010

	<i>Note</i>	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
ASSETS			
Cash and short-term funds	<i>17</i>	2,774,901	5,413,566
Balances with banks and other financial institutions	<i>18</i>	2,058,707	290,902
Trading securities	<i>19</i>	966,658	105,420
Financial assets designated at fair value through profit or loss	<i>20</i>	406,268	641,737
Derivative financial instruments	<i>21(b)</i>	491,633	632,010
Advances to customers less impairment allowances	<i>22</i>	28,496,116	26,947,698
Other loans and receivables	<i>23</i>	2,802,314	3,392,218
Accrued interest and other assets		708,962	1,464,644
Available-for-sale securities	<i>24</i>	18,555,832	17,939,071
Held-to-maturity investments	<i>25</i>	2,462,681	902,222
Interests in associates	<i>26</i>	508,601	384,502
Investments in subsidiaries	<i>27</i>	187,601	191,473
Amounts due from subsidiaries		480,947	2,043,318
Fixed assets	<i>28</i>	1,003,463	1,046,547
Deferred tax assets	<i>37(b)</i>	1,157	30,618
		<u>61,905,841</u>	<u>61,425,946</u>
LIABILITIES			
Deposits and balances of banks	<i>30</i>	3,382,793	2,424,903
Deposits from customers	<i>31</i>	46,038,161	46,602,175
Trading liabilities	<i>32</i>	920,695	14,275
Financial liabilities designated at fair value through profit or loss	<i>33</i>	263,986	201,096
Certificates of deposit issued	<i>34</i>	797,951	322,100
Debt securities issued	<i>35</i>	41,401	268,791
Derivative financial instruments	<i>21(b)</i>	577,314	651,896
Other liabilities	<i>36</i>	1,488,769	3,881,075
Amounts due to subsidiaries		520,548	870,689
Subordinated notes issued	<i>38</i>	3,137,286	1,640,257
		<u>57,168,904</u>	<u>56,877,257</u>
EQUITY			
Share capital	<i>39</i>	2,097,519	2,097,519
Share premium	<i>40</i>	749,778	749,778
Reserves	<i>41</i>	1,889,640	1,701,392
Shareholders' funds		<u>4,736,937</u>	<u>4,548,689</u>
		<u>61,905,841</u>	<u>61,425,946</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to equity holders of the Bank										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Regulatory reserve	Investment revaluation reserve	Foreign exchange reserve	Retained earnings	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2009	2,097,519	749,778	372,000	12,969	175,211	(276,620)	-	1,587,088	4,717,945	3,152	4,721,097
Total comprehensive income for the year	-	-	-	-	-	305,197	67	22,995	328,259	(461)	327,798
- Profit for the year	-	-	-	-	-	-	-	22,995	22,995	(461)	22,534
- Other comprehensive income, of which:											
- Available-for-sale securities: net movement in investment revaluation reserve	-	-	-	-	-	305,197	-	-	305,197	-	305,197
- Exchange differences on translation of an associate	-	-	-	-	-	-	67	-	67	-	67
Dividends approved and paid in respect of the previous financial year	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Interim dividend paid	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Preference share dividend paid during the year	-	-	-	-	-	-	-	(81,886)	(81,886)	-	(81,886)
Equity settled share-based transactions	-	-	-	2,715	-	-	-	-	2,715	-	2,715
At 31 December 2009	<u>2,097,519</u>	<u>749,778</u>	<u>372,000</u>	<u>15,684</u>	<u>175,211</u>	<u>28,577</u>	<u>67</u>	<u>1,493,033</u>	<u>4,931,869</u>	<u>2,691</u>	<u>4,934,560</u>

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**FINANCIAL INFORMATION RELATING TO
THE FUBON BANK GROUP**

	Attributable to equity holders of the Bank										
	Share capital	Share premium	Capital redemption reserve	Capital reserve	Regulatory reserve	Investment revaluation reserve	Foreign exchange reserve	Retained earnings	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010	2,097,519	749,778	372,000	15,684	175,211	28,577	67	1,493,033	4,931,869	2,691	4,934,560
Total comprehensive income for the year	-	-	-	-	-	(6,766)	14,434	266,966	274,634	(673)	273,961
- Profit for the year	-	-	-	-	-	-	-	266,966	266,966	(673)	266,293
- Other comprehensive income, of which:											
- Available-for-sale securities: net movement in investment revaluation reserve	-	-	-	-	-	(6,766)	-	-	(6,766)	-	(6,766)
- Exchange differences on translation of an associate	-	-	-	-	-	-	14,434	-	14,434	-	14,434
Dividends approved and paid in respect of the previous financial year	-	-	-	-	-	-	-	(17,582)	(17,582)	-	(17,582)
Interim dividend paid	-	-	-	-	-	-	-	(23,443)	(23,443)	-	(23,443)
Preference share dividend paid during the year	-	-	-	-	-	-	-	(83,887)	(83,887)	-	(83,887)
Equity settled share-based transactions	-	-	-	10,755	-	-	-	-	10,755	-	10,755
Return of capital on deregistration of a subsidiary	-	-	-	-	-	-	-	-	-	(96)	(96)
At 31 December 2010	<u>2,097,519</u>	<u>749,778</u>	<u>372,000</u>	<u>26,439</u>	<u>175,211</u>	<u>21,811</u>	<u>14,501</u>	<u>1,635,087</u>	<u>5,092,346</u>	<u>1,922</u>	<u>5,094,268</u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	2010		2009	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating activities					
Profit before taxation		312,541		26,651	
Adjustments for non-cash items:					
Charge for/(write back) of impairment allowance for advances to an associate		681		(346)	
Depreciation		61,657		66,598	
Net losses on disposals of fixed assets		5,045		16	
Impairment losses on advances to customers		9,713		484,917	
Impairment losses on available-for-sale securities		19,472		67,124	
Write back of impairment losses on assets acquired under lending agreements		(417)		(4,737)	
Revaluation loss on collateralised debt obligations		13,673		681	
Equity-settled share-based payment expenses		10,755		2,715	
Share of profits of an associate		(31,352)		(14,309)	
Impairment losses on other assets		17,270		–	
Exchange difference and other non-cash items		21,733		(16,005)	
			440,771		613,305
Decrease/(increase) in operating assets:					
Treasury bills with original maturity of over three months		(918,007)		239,605	
Balances with banks and other financial institutions		(440,589)		561,609	
Trading securities		915		2,257	
Financial instruments designated at fair value through profit or loss		235,469		58,544	
Derivative financial instruments		140,377		1,986,063	
Gross advances to customers		(298,717)		3,976,934	
Other loans and receivables		589,904		353,068	
Accrued interest and other assets		739,944		(423,454)	
Certificates of deposit held		–		472,897	
Available-for-sale securities		(616,088)		(6,179,396)	
Held-to-maturity investments		(1,560,459)		(6,632)	
			(2,127,251)		1,041,495

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		2010		2009	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Decrease)/increase in operating liabilities:					
Deposits and balances of banks		1,312,423		1,014,879	
Deposits from customers		(564,014)		(1,395,412)	
Trading liabilities		906,420		(101,870)	
Derivative financial instruments		(88,255)		(1,855,130)	
Certificates of deposit issued		475,851		(638,081)	
Other liabilities		<u>(2,392,550)</u>		<u>228,286</u>	
			<u>(350,125)</u>		<u>(2,747,328)</u>
Net cash used in operations			<u>(2,036,605)</u>		<u>(1,092,528)</u>
Hong Kong Profits Tax paid			(21,072)		(12,611)
Overseas Tax paid			<u>(232)</u>		<u>(2)</u>
Net cash used in operating activities			<u>(2,057,909)</u>		<u>(1,105,141)</u>
Investing activities					
Payments for purchases of fixed assets		(23,174)		(33,921)	
Proceeds from disposals of fixed assets		24		492	
Dividend received from associate		28,928		–	
Payment for return of capital from de-registration of a subsidiary to a non-controlling shareholder		(96)		–	
Payment for further investment in an associate		<u>(125,711)</u>		<u>–</u>	
Net cash used in investing activities			<u>(120,029)</u>		<u>(33,429)</u>
Financing activities					
Ordinary share dividends paid		(41,025)		(35,164)	
Preference share dividends paid		(83,887)		(81,886)	
Redemption of debt securities in issue		(227,390)		(1,630,191)	
Subordinated notes issued		1,539,117		–	
Deposits accepted from fellow subsidiaries		4,655,778		10,583,832	
Deposits repaid to fellow subsidiaries		<u>(5,010,311)</u>		<u>(11,160,822)</u>	
Net cash generated from/(used in) financing activities			<u>832,282</u>		<u>(2,324,231)</u>

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**FINANCIAL INFORMATION RELATING TO
THE FUBON BANK GROUP**

		2010		2009	
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net decrease in cash and cash equivalents			(1,345,656)		(3,462,801)
Cash and cash equivalents as at 1 January			<u>5,592,160</u>		<u>9,054,961</u>
Cash and cash equivalents as at 31 December	43		<u><u>4,246,504</u></u>		<u><u>5,592,160</u></u>
Cash flows from operating activities include:					
Interest received			1,234,325		1,787,933
Interest paid			(343,588)		(665,921)
Dividends received			<u>15,265</u>		<u>11,401</u>

NOTES TO THE FINANCIAL STATEMENTS**1. ACTIVITIES**

Fubon Bank (Hong Kong) Limited (“The Bank”) is a licensed bank incorporated and domiciled in Hong Kong and has its registered office at 38 Des Voeux Road Central, Hong Kong.

The Bank, through its branches and subsidiaries, provides a range of banking, financial and related services.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended 31 December 2010 comprise the Bank and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements in conjunction with the unaudited supplementary financial information on pages 129 to 148 also comply with the applicable disclosure provisions of the “Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited” and the disclosure requirements of the Banking (Disclosure) Rules made by the Hong Kong Monetary Authority (“HKMA”) under section 60A of the Hong Kong Banking Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

(b) New and revised HKFRSs

The HKICPA has issued two revised HKFRS, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period or available for early adoption of the Group and the Bank. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to HKFRS 3 (revised 2008) “Business combinations”
- Amendments to HKAS 27 “Consolidated and separate financial statements”
- Amendment to HKAS 39 “Financial instruments: Recognition and measurement – eligible hedged items”
- Improvements to HKFRSs (2009)
- HK (Int 5) “Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause”

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The amendment to HKAS 39 and the issuance of HK (Int) 5 have had no material impact on the Group's financial statements as the amendment and the Interpretation's conclusions were consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to HKFRS 3, HKAS 27, HKFRS 5 and HK(IFRIC) 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to HKFRS 3 (in respect of recognition of acquiree's deferred tax assets) and HKAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.
- The amendment introduced by the "Improvements to HKFRS (2009)" omnibus standard in respect of HKAS 17, Leases, did not result in any change to the Group's financial statements.

(c) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (see Note 2(g));
- derivative financial instruments (see Note 2(g)); and
- certain of the Group's owned properties (see Note 2(j))

In addition, the carrying amounts of assets and liabilities that are designated as hedged items in a fair value hedge are adjusted for fair value changes attributable to the hedged risk.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgments made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 52.

(d) Investments in subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interest (previously known as “minority interests”) represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. The Group measures non-controlling interests at their proportionate share of the subsidiary’s net identifiable assets. Non-controlling interests are presented in the consolidated balance sheet, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

Changes in the Group’s interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

Where the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(g)) or, where appropriate, the cost on initial recognition of an investment in an associate (see Note 2(e)).

In the Bank’s balance sheet, its investments in subsidiaries are stated at cost less impairment losses, if any (see Note 2(m)).

(e) Interests in associates

An associate is an entity in which the Group or the Bank has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The investment in an associate in the Philippines is not equity accounted for in the consolidated financial statements as it is considered by the Directors to be immaterial to the Group. It is stated at cost less impairment losses in the Group’s and the Bank’s balance sheet. The result of this associated company is included in the Group’s and the Bank’s profit or loss to the extent of dividends receivable.

The investment in an associate in the PRC is accounted for in the consolidated financial statements under the equity method. It is initially recorded at cost, adjusted for any excess of the Group’s share of the acquisition-date fair values of the investee’s net identifiable assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group’s share of the associate’s net assets and any impairment loss relating to the investment, if any (see Notes 2(f) and (m)). Any acquisition-date excess over cost, the Group’s share of the post-acquisition, post-tax results of the associate and any impairment losses for the year are recognised in profit or loss, whereas the Group’s share of the post-acquisition, post tax items of the associate’s other comprehensive income is recognised in the Group’s other comprehensive income.

If the Group’s share of losses exceeds its interest in the associate, the Group’s interest would be reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. The Group’s interest in the associate is the carrying amount of the investment under the equity method together with the Group’s long-term interests that in substance form part of the Group’s net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note 2(g)).

In the Bank's balance sheet, its investments in both associates are stated at cost less impairment losses, if any (see Note 2(m)).

(f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units and is tested annually for impairment (see Note 2(m)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in associates and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see Note 2(m)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On disposal of a cash generating unit, or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of profit or loss on disposal.

(g) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price, plus in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of financial liability. Transaction costs on financial assets and financial liabilities designated at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments or available-for-sale financial assets is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

*(ii) Categorisation**Fair value through profit or loss*

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting (Note 2(i)) are accounted for as trading instruments.

Financial instruments are designated at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise;
- the asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the asset or liability contains an embedded derivative the separation of which from the financial instrument is clearly not prohibited.

Financial assets and liabilities under this category are carried at fair value. Changes in the fair value are included in profit or loss in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise advances to customers, placements with banks and other financial institutions, and certain debt securities.

Debt securities classified as loans and receivables are not quoted in an active market. Investment decisions for such debt securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. These debt securities include subordinated debt instruments and senior debt instruments issued by borrowers.

Loans and receivables are carried at amortised cost using the effective interest rate method less impairment losses, if any (see Note 2(m)). Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to profit or loss over their expected life.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates at fair value through profit or loss or as available-for-sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method less impairment losses, if any (see Note 2(m)).

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it is reclassified as available-for-sale and remeasured at fair value.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such equity instruments are carried at cost less impairment losses, if any (see Note 2(m)).

When available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments previously recognised in other comprehensive income.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest rate method.

(iii) Fair value measurement principles

The fair value of financial instruments is ideally based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange, a price from a broker/dealer for non-exchange-traded financial instruments is used. If the market for a financial instrument is not active, the fair value of the instrument is estimated using a valuation technique that provides a reliable estimate of the price which could be obtained in an actual market transaction.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

(iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

The Group uses the weighted average method to determine realised gains and losses to be recognised in profit or loss on derecognition.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where 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.

(vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both a derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. Embedded derivatives are separated from the host contract and accounted for as a derivative when (i) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; and (ii) the hybrid (combined) instrument is not held at fair value through profit or loss.

When the embedded derivative is separated, the host contract is accounted for in accordance with the accounting policies for the relevant financial instrument. The embedded derivative is classified as a derivative financial instrument in the financial statements.

(h) Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreement) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported as receivables and are carried in the balance sheet at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognised as interest income and interest expense respectively, over the life of each agreement using the effective interest rate method.

(i) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instruments and the hedged items. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. Under HKAS 39 hedge accounting is classified into three categories: (a) fair value hedges; (b) cash flow hedges and (c) net investment hedges. The Group only applies hedge accounting for fair value hedges of its subordinated notes programme (Note 38) and certain fixed rate available-for-sale investments.

The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

(i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised assets and liabilities that will give rise to a gain or loss being recognised in profit or loss.

The hedging instruments are measured at fair value, with fair value changes recognised in profit or loss. The carrying amounts of the hedged items are adjusted by the changes in fair value attributable to the risk being hedged. These adjustments are recognised in profit or loss to offset the effect of gains or losses on the hedging instruments.

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes designation of the hedge relationship any adjustment up to that point, to a hedged item for which the effective interest rate method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) is also demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises both cumulative dollar offset method and regression analysis as the effectiveness testing methodologies for retrospective testing. For prospective effectiveness, the hedging instruments must be expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk during the period for which the hedge is designated and is typically demonstrated through matching of critical terms. For actual effectiveness, the hedging instrument should demonstrate that it is highly effective in offsetting changes in fair value attributable to the hedged risk. The Group considers that where changes in fair value offset each other in the range of 80 per cent to 125 percent the hedge is highly effective.

(j) Other property and equipment

The Group's leasehold land and buildings are held under operating leases and, in the absence of reliable information to allow separation of the land and buildings components under the leases the land and buildings are accounted for as properties under HKAS 16, 'Property, Plant and Equipment' issued by the HKICPA.

In addition, certain of the Group's leasehold land and premises have been included at Directors' valuation made having regard to independent professional valuations carried out in November 1989. The surplus arising on revaluation was credited to the revaluation reserve. Additions to revalued premises made subsequent to the revaluation are included at cost. Premises which have not been the subject of revaluation are included at cost. The revaluation reserve arising from the November 1989 revaluation was transferred to the capital redemption reserve when the Bank redeemed its "A" and "B" preference shares in 1991 and 1992.

In preparing these financial statements, advantage has been taken of the transitional provisions in paragraph 80A of HKAS 16 with the effect that premises have not been revalued to fair value at the balance sheet date. It is not the Directors' present intention to revalue the premises in the future.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the assets when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the assets and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property and equipment using the straight line method over the estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of the lease and their estimated useful lives, being no less than 2% per annum after the date of completion.
- Furniture and equipment is generally depreciated over periods of between three to ten years.

Where parts of an item of property and equipment have different useful lives each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) Leases and hire purchase contracts

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of leased assets

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

(ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy for impairment (see Note 2(m)).

(iii) Operating leases

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the periods covered by the lease terms, except where an alternative basis is more representative of the pattern of benefits to be delivered from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregated net lease payments made. Contingent rentals are charged to profit or loss in the period in which they are incurred. The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(l) Repossessed assets

During the recovery of impaired advances to customers, the Group may take repossession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking

repayment from the borrower, repossessed assets are reported in “Accrued interest and other accounts” and the relevant loans and advances are derecognised. The Group does not hold repossessed assets for its own use.

Repossessed assets are initially recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on subsequent remeasurement are recognised in profit or loss. Any gains on subsequent remeasurement are recognised in profit or loss until the repossessed asset is stated at the amount of related loans and advances at the date of exchange.

(m) Impairment of assets

The carrying amount of the Group’s assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence that assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows of assets:

Financial assets:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- Disappearance of an active market for financial assets because of financial difficulties; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Non-financial assets:

- During the period, an asset’s market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- Significant changes with an adverse effect on the Group have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Group operates or in the market to which an asset is dedicated;
- Evidence is available of obsolescence or physical damage of an asset; or
- Significant changes with an adverse effect on the Group have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

If any such evidence exists, the carrying amount is generally reduced to the estimated recoverable amount by means of a charge to profit or loss. The main exception is for available-for-sale securities where the carrying amount is reduced to the fair value by means of a charge to profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of advances to customers, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against advances to customers directly and any amounts held in the allowance account relating to that borrower are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(i) *Loans and receivables*

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances and collective impairment allowance.

The Group first assesses whether any objective evidence of impairment exists for financial assets that are individually significant and collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it then includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in any collective assessment of impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

The individual impairment allowance is based upon management's best estimate of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its merits.

In assessing the need for a collective impairment allowance on individually significant loans which are not impaired, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowance. While this necessarily involves judgment, the Group believes that the impairment allowances on advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be

charged or credited to profit or loss. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery the loan and the related interest receivable are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

(ii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both an individual and collective level. If impairment is identified, the individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

All held-to-maturity investments found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(iii) Available-for-sale financial assets

Where there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in other comprehensive income is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(iv) Goodwill and other assets

Goodwill is tested annually by comparing the carrying amount of the relevant cash-generating unit with its recoverable amount.

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment;
- pre-paid interests in leasehold land classified as being held under an operating lease; and
- investments in subsidiaries and associates.

If any such indication exists, the asset's recoverable amount is estimated.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(v) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34 "Interim Financial Reporting" in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (see Notes 2(m)(i) to (v)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(n) *Cash equivalents*

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits**(i) Short term employee benefits**

Short term employee benefits include salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits and are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Defined benefit retirement scheme

The Group's obligation in respect of its defined benefit retirement scheme is calculated by estimating the amount of future benefits that the Group is committed to pay to the employees after their retirement using actuarial techniques. Any cumulative unrecognised gains or losses exceeding 10% of the present value of the obligation or the fair value of the plan assets (whichever is higher) at the balance sheet date is amortised to profit or loss over the average remaining service life of the employees in the scheme. Otherwise, the gain or loss is not recognised.

(iii) Share-based payments

The fair value of share options granted to employees by the ultimate holding company is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original employee expense qualifies for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the ultimate holding company's shares.

The equity amount is recognised in capital reserve until the option expires (when it is released directly to retained earnings).

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Bank or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the related current tax assets and settle the related current tax liabilities on a net basis or realise and settle simultaneously.

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income recognised within other liabilities.

The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note 2(q)(ii) if and when

- (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and
- (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Interest income

Interest income from interest-bearing financial instruments is generally recognised in profit or loss on an accrual basis using the effective interest rate method. Interest income from trading assets and financial assets designated at fair value through profit or loss is recognised on basis of accrued coupon.

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. 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, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar option) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, together with transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to profit or loss over their expected life.

(ii) *Net income from financial instruments designated at fair value through profit or loss and net trading income*

Net income from financial instruments designated as fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, foreign exchange differences and dividend income attributable to those financial instruments.

(iii) *Fee and commission income*

Fee and commission income arises on financial services provided by the Group including cash management services, brokerage services, investment banking services, investment management services and project and structured finance transactions services. Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases the fee is recognised as income in the accounting period in which the costs or risk is incurred or is accounted for as interest income.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial instrument are deferred and recognised as an adjustment to the effective interest rate unless it is a trading asset or liability or a financial asset designated at fair value through profit or loss. In this case it is immediately recognised in profit or loss. If the commitment expires without the Group making a loan, the fee is recognised as revenue on expiry.

(iv) *Finance income from finance lease and hire purchase contracts*

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

(v) *Dividend income*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(s) **Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars at exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to financial instruments held at fair value through profit or loss and derivative financial instruments are included in net income from financial instruments designated at fair value through profit or loss and net gain/(loss) on derivative financial instruments, respectively. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in profit or loss and are reported within "Other operating income". Differences arising on translation of available-for-sale equity instruments are recognised in other comprehensive income.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Assets and liabilities are translated at the closing rate at the date of that balance sheet. All resulting exchange differences are recognised in other comprehensive income and accumulated in equity in the foreign exchange reserve.

On disposal of a foreign operation the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(t) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(u) Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. BASIS OF CONSOLIDATION

These consolidated financial statements cover the consolidated positions of the Bank and all its subsidiaries unless otherwise stated (together referred to as the Group) and the Group's interest in associates.

4. INTEREST INCOME AND EXPENSE

(a) Interest income

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Listed investments	403,060	370,942
Other	<u>768,491</u>	<u>1,162,423</u>
Interest income on financial assets that are not at fair value through profit or loss	1,171,551	1,533,365
Interest income on trading assets		
– listed investments	139	468
– unlisted investments	3,943	766
Interest income on financial assets designated at fair value through profit or loss	<u>20,536</u>	<u>23,901</u>
	<u><u>1,196,169</u></u>	<u><u>1,558,500</u></u>

(b) Interest expense

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Deposits from customers, banks and other financial institutions and certificates of deposit issued	316,237	382,631
Debt securities issued which are wholly repayable within 5 years	2,646	6,245
Other borrowings	<u>5,248</u>	<u>11,378</u>
Interest expense on financial liabilities that are not at fair value through profit or loss	324,131	400,254
Interest expense on trading liabilities	5,240	2,144
Interest expense on financial liabilities designated at fair value through profit or loss	<u>14,278</u>	<u>13,598</u>
	<u><u>343,649</u></u>	<u><u>415,996</u></u>

5. FEE AND COMMISSION INCOME AND EXPENSE

(a) Fee and commission income

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Fee and commission income arising from:		
Credit related services	52,185	27,598
Trade finance services	8,581	11,221
Credit card services	97,063	85,894
Securities brokerage and investment services	51,508	60,112
Insurance services	58,875	40,518
Unit trust services	41,713	34,960
Other fees	20,841	20,861
	<u>330,766</u>	<u>281,164</u>

of which:

Fee and commission income arising from:

– Financial assets or financial liabilities which are not measured at fair value through profit or loss	101,592	83,305
– Trust or other fiduciary activities	1,399	2,237

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

(b) Fee and commission expense

	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i>
Handling fees and commission	54,790	44,580
Other fees paid	18,784	26,216
	<u>73,574</u>	<u>70,796</u>

of which:

Fee and commission expense arising from:

– Financial assets or financial liabilities which are not measured at fair value through profit or loss	49,191	44,299
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6. OTHER OPERATING INCOME

	2010 HK\$'000	2009 HK\$'000
Gains less losses from dealing		
– Foreign exchange	(63,614)	87,841
– Trading securities	8,258	16,389
– Other dealing activities*	44,600	40,971
– Short selling activities	(413)	718
	<u>(11,169)</u>	<u>145,919</u>
Net hedging income from fair value hedges		
Net gain on hedged items attributable to the hedged risk	111,442	10,278
Net loss on hedging instruments	(111,442)	(10,278)
	<u>–</u>	<u>–</u>
Net (loss)/gain on other financial instruments designated at fair value through profit or loss		
Net gain on sale of other financial instruments designated at fair value through profit or loss	1,918	5,251
Revaluation loss on other financial instruments designated at fair value through profit or loss	(57,931)	(2,794)
	<u>(56,013)</u>	<u>2,457</u>
Gains less losses from other financial liabilities measured at amortised cost	1,097	(5)
Revaluation gain/(loss) on derivative financial instruments	80,675	(102,734)
Dividend income from listed available-for-sale securities	–	785
Dividend income from unlisted available-for-sale securities	15,265	10,616
Rental income	1,659	986
Others	10,560	10,452
	<u>42,074</u>	<u>68,476</u>

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

7. OPERATING EXPENSES

	2010 HK\$'000	2009 HK\$'000
Staff costs		
Contributions to defined contribution scheme	6,133	6,939
Defined benefit scheme expenses (<i>Note 44(b)</i>)	<u>17,661</u>	<u>31,988</u>
Retirement scheme costs	23,794	38,927
Equity-settled share-based payment expenses	10,755	2,715
Salaries and other staff costs	<u>435,381</u>	<u>447,374</u>
	469,930	489,016
Premises and other fixed assets		
Rental of premises	44,647	47,685
Depreciation (<i>Note 28</i>)	61,657	66,598
Others	18,541	20,662
Auditors' remuneration	2,445	2,345
Other operating expenses		
Business promotion	68,673	55,986
Legal and professional fees	24,322	25,913
Communication	23,688	17,718
Electronic data processing and computer systems	79,085	80,521
Others	<u>63,164</u>	<u>147,852</u>
	<u>856,152</u>	<u>954,296</u>

During 2007, certain employees of the Group were granted unlisted physically settled options under the share option scheme of the Bank's ultimate holding company, Fubon Financial Holding Co., Ltd. ("Fubon Financial") for the services rendered to the Group. HKFRS 2 requires the fair value of the options issued to be shown as an expense in the Group financial statements, apportioned over the period from the grant date to the vesting date, with a corresponding credit to reserves (Note 41). There will be no cash expense to Fubon Bank (Hong Kong) Limited as it is not required to make payment to any party in respect of either the issue of the options or their exercise. Shareholders of the Bank will suffer no dilution from the issue of shares by the ultimate holding company in the event that the options are exercised.

Terms and conditions of the share option grants

Date of options granted	Exercise price per share NT\$	As at	
		31 December 2010 Number of options	31 December 2009 Number of options
31 July 2007	25.70 (previously NT\$29.00)	4,995,000	5,312,500
7 December 2007	23.50 (previously NT\$26.70)	<u>6,509,500</u>	<u>8,787,000</u>
		<u>11,504,500</u>	<u>14,099,500</u>

50% of the options were exercisable between the second and the third anniversaries of the date grant, 75% will be exercisable between the third and fourth anniversaries and 100% between the fourth and fifth anniversaries, provided that the employees remain with the Fubon Group.

The number and weighted average exercise prices of share options

Date of options granted	2010		2009	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at the beginning of the year	24.33	14,099,500	27.64	16,122,000
Transferred in during the year	23.50	220,000	27.66	4,140,000
Exercised during the year	23.75	(2,815,000)	28.23	(2,092,500)
Forfeited during the year	–	–	27.60	(4,070,000)
Outstanding at the end of the year		<u>11,504,500</u>	27.57	<u>14,099,500</u>
Exercisable at the year end of the year		<u>7,924,625</u>		<u>6,003,500</u>

The options outstanding at 31 December 2010 have a weighted average remaining contractual life of 1.78 years (2009: 2.80 years). The weighted average share price at the date of exercise for the share options exercised during the year was NT\$38.67 (2009: NT\$37.12).

The share price of Fubon Financial at 31 December 2010 was NT\$40.00 (2009: NT\$39.30).

Fair values of share options

The Group has applied HKFRS 2” Share-based Payments” to account for share options granted on 31 July 2007 and 7 December 2007.

The fair values of share options granted by the Company were determined by using Black-Scholes option pricing model (the “Model”). The Model is one of the commonly used models to estimate the fair value of an option. The variables and assumptions used in computing the fair value of the share options are based on management’s best estimate. The value of an option varies with different variables of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of an option. The inputs into the Model were as follows:

	Option granted on 31 July 2007	Option granted on 7 December 2007
Closing share price at grant date (NT\$)	30.50	28.20
Exercise price (NT\$)	30.50	28.20
Risk-free interest rate (%) (Note a)	2.41	2.41
Expected life of option (Note b)	5 years	5 years
Expected volatility (%) (Note c)	33.37	33.41
Expected dividend yield (%) (Note d)	–	–
Estimated fair value per share option (NT\$)	10.21	9.45

Notes:

- (a) Risk free rate: being the approximate yields of 5-year TWD swap rate traded on the date of grant, matching the expected life of each option.
- (b) Expected life of option: being the period of 5 years commencing on the date of grant, based on the date of grant, based on management’s best estimate for the effects of non-transferability, exercise restriction and behavioural consideration.

- (c) Expected volatility: being the implied volatility derived from traded options over Fubon Financial shares at the date of grant.
- (d) Expected dividend per annum: being the annual cash dividend for past financial year. This is nil as the exercise price is adjusted for any dividend paid.

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

The Group	Directors' Fee <i>HK\$'000</i>	Salaries, allowances and other benefits <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Share-based payment expense <i>(Note)</i> <i>HK\$'000</i>	2010 Total <i>HK\$'000</i>
<i>Executive directors</i>							
Thomas Liang	455	3,772	2,595	120	6,942	1,112	8,054
James Yip	380	2,427	1,300	241	4,348	1,337	5,685
<i>Non-executive directors</i>							
Ming-Hsing (Richard) Tsai	596	-	-	-	596	-	596
Ming-Chung (Daniel) Tsai	511	-	-	-	511	-	511
Victor Kung	550	-	-	-	550	-	550
Michael Chang Ming-Yuen*	455	3,062	-	152	3,669	1,340	5,009
David Chang Kuo-Chun	360	-	-	-	360	-	360
<i>Independent Non-Executive directors</i>							
Robert James Kenrick	676	-	-	-	676	-	676
Moses Tsang	436	-	-	-	436	-	436
Hung Shih	606	-	-	-	606	-	606
	<u>5,025</u>	<u>9,261</u>	<u>3,895</u>	<u>513</u>	<u>18,694</u>	<u>3,789</u>	<u>22,483</u>

* Mr Michael Chang Ming-Yuen has changed from Executive Director to Non-Executive Director on 1 September 2010. Amounts shown above include remuneration for both positions during the year.

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The Group	Directors' Fee <i>HK\$'000</i>	Salaries, allowances and other benefits <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Share-based payment expense <i>(Note)</i> <i>HK\$'000</i> <i>(Restated)</i>	2009 Total <i>HK\$'000</i> <i>(Restated)</i>
<i>Executive directors</i>							
Thomas Liang	62	588	–	10	660	252	912
Jin-Yi Lee	300	5,899	–	265	6,464	464	6,928
Michael Chang Ming-Yuen	361	3,514	–	168	4,043	2,124	6,167
James Yip	305	2,365	400	216	3,286	2,119	5,405
<i>Non-executive directors</i>							
Ming-Hsing (Richard) Tsai	490	–	–	–	490	–	490
Ming-Chung (Daniel) Tsai	406	–	–	–	406	–	406
Victor Kung	453	–	–	–	453	–	453
David Chang Kuo-Chun	285	–	–	–	285	–	285
<i>Independent Non-Executive directors</i>							
Robert James Kenrick	555	–	–	–	555	–	555
Moses Tsang	335	–	–	–	335	–	335
Hung Shih	482	–	–	–	482	–	482
	<u>4,034</u>	<u>12,366</u>	<u>400</u>	<u>659</u>	<u>17,459</u>	<u>4,959</u>	<u>22,418</u>

Note: These represent the estimated value of unlisted physically settled share options granted to the directors under the share option scheme of the Bank's ultimate holding company, Fubon Financial Holding Co., Ltd. during 2007 for the services rendered to the Group. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(o)(iii) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "options" in the directors' report and note 7.

The amounts for 2009 have been restated to correct an error identified in the calculation of the share options fair value. The impact on the overall financial statements is not considered material and has been adjusted in 2010.

9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2009: three) are Directors whose emoluments are disclosed in Note 8 above. The aggregate of the emoluments in respect of the other two (2009: two) individuals are as follows:

	The Group	
	2010 <i>HK\$'000</i>	2009 <i>HK\$'000</i> <i>(Restated)</i>
Basic salaries and other allowances	5,076	4,783
Contributions to pension scheme	186	354
Bonuses	971	200
Share-based payment expenses <i>(Note)</i>	<u>370</u>	<u>1,562</u>
	<u>6,603</u>	<u>6,899</u>

The emoluments of the two (2009: two) individuals with the highest emoluments are within the following bands:

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
HK\$3,000,001 – HK\$3,500,000	2	1
HK\$3,500,001 – HK\$4,000,000	–	1

Note: During 2007, two (2009: one) of the above individuals have been granted unlisted physically settled options under the share option scheme of the Bank's ultimate holding company, Fubon Financial Holding Co., Ltd. for the services rendered to the Group. The share-based payment expense for the current year calculated in accordance with HKFRS 2 is included in Staff Costs (Note 7) and amounts to HK\$0.4 million (2009: HK\$1.5 million). The share-based payment expense represent the estimated value of those options measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(o)(iii) and is included in Staff Costs (Note 7).

The amounts for 2009 have been restated to correct an error identified in the calculation of the share options fair value. The impact on the overall financial statements is not considered material and has been adjusted in 2010.

10. NET GAINS ON DISPOSALS OF AVAILABLE-FOR-SALE SECURITIES

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Realisation of revaluation surplus previously recognised in the investment revaluation reserve (<i>Note 13</i>)	26,192	40,118
Net gains arising in the current year	<u>24,800</u>	<u>52,827</u>
	<u><u>50,992</u></u>	<u><u>92,945</u></u>

11. IMPAIRMENT LOSSES ON ADVANCES TO CUSTOMERS

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Impairment losses (charged to)/released on advances to customers (<i>Note 22</i>)		
– Additions	(119,195)	(532,415)
– Releases	<u>109,482</u>	<u>47,498</u>
	<u><u>(9,713)</u></u>	<u><u>(484,917)</u></u>

12. INCOME TAX IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(a) Taxation in the consolidated statement of comprehensive income represents:

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

	2010 HK\$'000	2009 HK\$'000
Current tax – Hong Kong Profits Tax		
Tax for the year	15,042	23,595
Under/(over)-provision in respect of prior years	14	(3,243)
	<u>15,056</u>	<u>20,352</u>
Current tax – Overseas Tax		
Tax for the year	259	78
Under-provision in respect of prior years	27	–
	<u>286</u>	<u>78</u>
Deferred tax		
Origination and reversal of temporary differences (<i>Note 37(b)</i>)	30,906	(16,313)
	<u>46,248</u>	<u>4,117</u>

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2010 HK\$'000	2009 HK\$'000
Profit before taxation	<u>312,541</u>	<u>26,651</u>
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	51,569	4,397
Tax effect of non-taxable revenue	(11,204)	(4,584)
Tax effect of non-deductible expenses	8,536	7,547
Under/(over)-provision in respect of prior years	41	(3,243)
Others	(2,694)	–
Actual tax expense	<u>46,248</u>	<u>4,117</u>

13. OTHER COMPREHENSIVE INCOME

	2010 HK\$'000	2009 HK\$'000
Available-for-sale securities:		
Changes in fair value recognised during the year	(24,363)	351,504
Amortisation of previous revaluation deficits recognised on available-for-sale securities which have subsequently been reclassified as other loans and receivables	33,834	37,987
Amounts transferred to profit or loss:		
– gains on disposal (<i>Note 10</i>)	(26,192)	(40,118)
– impairment losses	16,544	22,627
Share of changes in fair value of available-for-sale securities held by an associate	(4,184)	(3,296)
Deferred taxation (<i>Note 37(b)</i>)	<u>(2,405)</u>	<u>(63,507)</u>
Net movement in the investment revaluation reserve during the year recognised in other comprehensive income	<u>(6,766)</u>	<u>305,197</u>

14. EARNINGS PER SHARE

The earnings per share is calculated on profit attributable to shareholders of HK\$266,966,000 (2009: HK\$22,995,000) net of preference share dividend of HK\$83,896,000 (2009: HK\$83,517,000) and 1,172,160,000 (2009: 1,172,160,000) ordinary shares in issue during the year. There are no convertible loan capital, options or warrants outstanding which would cause a dilution of the earnings per share.

15. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE BANK

The consolidated profit attributable to shareholders of the Bank includes a gain of HK\$218,696,000 (2009: loss of HK\$14,718,000) which has been dealt with in the financial statements of the Bank.

Reconciliation of the above amount to the Bank's profit for the year:

	2010 HK\$'000	2009 HK\$'000
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in the Bank's financial statements	218,696	(14,718)
Interim dividends from a subsidiary attributable to the profits of previous financial years, approved and paid during the year	<u>86,291</u>	<u>178,570</u>
Bank's profit for the year (<i>Note 41</i>)	<u>304,987</u>	<u>163,852</u>

16. SEGMENT REPORTING

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

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

- The Mass Market business is grouped under Wealth Management in 2010 as opposed to Consumer Banking in 2009;

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

Operating segments

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

Consumer Banking comprises credit card merchant acquiring, provision of credit card advances, mortgage lending and other consumer lending.

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

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

Financial Markets mainly engages in foreign exchange and fixed income securities trading activities, the marketing of investment products and managing the Bank's investment portfolio.

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

Segment results, assets and liabilities

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

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

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

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

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

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

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

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

	2010					
	Consumer Banking <i>HK\$'000</i>	Wealth Management <i>HK\$'000</i>	Corporate and Investment Banking <i>HK\$'000</i>	Financial Markets <i>HK\$'000</i>	Funding Centre <i>HK\$'000</i>	Reportable Segments Total <i>HK\$'000</i>
Net interest income	171,413	53,804	234,796	216,612	172,175	848,800
Other operating income/(expense) from external customers	132,709	194,560	46,865	11,034	(40,559)	344,609
Fee and commission expense	(45,701)	(14,938)	(1,737)	(7,451)	–	(69,827)
Other operating income/(expense)	87,008	179,622	45,128	3,583	(40,559)	274,782
Operating income	258,421	233,426	279,924	220,195	131,616	1,123,582
Operating expenses	(137,301)	(213,172)	(87,133)	(50,689)	(4,559)	(492,854)
Inter-segment expenses	(2,905)	(33,001)	(2,982)	–	–	(38,888)
Operating profit/(loss) before gains and impairment losses	118,215	(12,747)	189,809	169,506	127,057	591,840
(Charge for)/write back of impairment losses on advances to customers	(14,127)	6,510	(4,177)	–	–	(11,794)
Impairment losses on other assets	–	(621)	(16,649)	–	–	(17,270)
Impairment losses on available-for-sale securities	–	–	–	(15,090)	–	(15,090)
Write back of impairment losses on assets acquired under lending agreements	–	–	17	–	–	17
Net gains on disposal of available-for-sale assets	–	–	–	30,512	6,845	37,357
Profit/(loss) before taxation	<u>104,088</u>	<u>(6,858)</u>	<u>169,000</u>	<u>184,928</u>	<u>133,902</u>	<u>585,060</u>
Operating expenses – depreciation	(2,093)	(7,994)	(2,937)	(1,145)	(39)	(14,208)
Segment assets	13,869,323	871,515	14,922,453	13,367,291	16,526,738	59,557,320
Segment liabilities	520,801	28,545,664	14,893,626	920,695	10,837,386	55,718,172

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

	Consumer Banking	Wealth Management	2010 Corporate and Investment Banking	Financial Markets	Reportable Segments Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net interest income	208,397	51,616	234,796	388,788	883,597
Other operating income from external customers	164,735	195,874	54,236	19,799	434,644
Fee and commission expense	(54,610)	(6,029)	(1,737)	(7,451)	(69,827)
Other operating income	110,125	189,845	52,499	12,348	364,817
Operating income	318,522	241,461	287,295	401,136	1,248,414
Operating expenses	(246,732)	(307,217)	(193,830)	(126,360)	(874,139)
Inter-segment expenses	(2,905)	(33,001)	(2,982)	–	(38,888)
Operating profit /(loss) before gains and impairment losses	68,885	(98,757)	90,483	274,776	335,387
(Charge for) / write back of impairment losses on advances to customers	(14,067)	6,719	(4,163)	–	(11,511)
Impairment losses on other assets	–	(621)	(16,649)	–	(17,270)
Impairment losses on available-for-sale securities	–	–	–	(19,472)	(19,472)
Write back of impairment losses on assets acquired under lending agreements	–	–	17	–	17
Net gains on disposal of available-for-sale assets	–	–	–	37,357	37,357
Profit / (loss) before taxation	<u>54,818</u>	<u>(92,659)</u>	<u>69,688</u>	<u>292,661</u>	<u>324,508</u>
Operating expenses – depreciation	(2,093)	(7,994)	(2,937)	(1,184)	(14,208)
Segment assets	17,785,113	876,414	14,922,453	30,064,762	63,648,742
Segment liabilities	520,801	28,545,664	14,893,626	11,758,081	55,718,172

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	Consumer Banking	Wealth Management	2009 Corporate and Investment Banking	Financial Markets	Reportable Segments Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net interest income	186,202	75,034	358,202	568,556	1,187,994
Other operating income from external customers	149,474	303,277	71,276	70,124	594,151
Fee and commission expense	(34,954)	(7,091)	(7,762)	(13,246)	(63,053)
Other operating income	114,520	296,186	63,514	56,878	531,098
Operating income	300,722	371,220	421,716	625,434	1,719,092
Operating expenses	(216,827)	(319,903)	(215,564)	(123,300)	(875,594)
Inter-segment expenses	(1,901)	(28,391)	(5,351)	–	(35,643)
Operating profit before gains and impairment losses	81,994	22,926	200,801	502,134	807,855
Impairment losses on advances to customers	(25,296)	(8,649)	(452,590)	–	(486,535)
Impairment losses on available-for-sale securities	–	–	–	(67,124)	(67,124)
Charge for impairment losses on assets acquired under lending agreements	–	–	(324)	–	(324)
Net gains on disposal of available-for-sale assets	–	–	–	80,258	80,258
Profit/(loss) before taxation	<u>56,698</u>	<u>14,277</u>	<u>(252,113)</u>	<u>515,268</u>	<u>334,130</u>
Operating expenses – depreciation	(378)	(8,728)	(3,122)	(3,216)	(15,444)
Segment assets	16,218,370	2,942,095	15,616,374	29,669,699	64,446,538
Segment liabilities	2,258,594	26,945,091	15,293,344	10,608,577	55,105,606

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

	2010 HK\$'000 (2010 Methodology)
Revenues	
Reportable segment operating income	1,123,582
Elimination of inter-segment operating income	(57,732)
Unallocated revenue	<u>72,263</u>
Consolidated operating income	<u><u>1,138,113</u></u>
Profit before tax	
Reportable segment profit before tax	585,060
Unallocated operating income	72,263
Unallocated operating expenses	(382,142)
Write back of impairment losses on advances to customers	2,081
Impairment losses on available-for-sale securities	(4,382)
Impairment losses on advances to an associate	(681)
Write back of impairment losses on assets acquired under lending agreements	400
Net gains on disposals of available-for-sale securities	13,635
Net losses on disposals of fixed assets	(5,045)
Share of profits of an associate	<u>31,352</u>
Consolidated profit before tax	<u><u>312,541</u></u>
Assets	
Reportable segment assets	59,557,320
Unallocated fixed assets	553,982
Interests in associates	532,353
Unallocated other assets	<u>1,135,980</u>
Consolidated total assets	<u><u>61,779,635</u></u>
Liabilities	
Reportable segment liabilities	55,718,172
Unallocated other liabilities	<u>967,195</u>
Consolidated total liabilities	<u><u>56,685,367</u></u>

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	2010 HK\$'000 (2009 Methodology)	2009 HK\$'000
Revenues		
Reportable segment operating income	1,248,414	1,719,092
Elimination of inter-segment operating income	(173,999)	(344,679)
Unallocated revenue	<u>63,698</u>	<u>46,254</u>
Consolidated operating income	<u><u>1,138,113</u></u>	<u><u>1,420,667</u></u>
Profit before tax		
Reportable segment profit before tax	324,508	334,130
Unallocated operating income	63,698	46,254
Unallocated operating expenses	(857)	(101,611)
Write back of impairment losses on advances to customers	2,084	2,320
(Charge for)/write back of impairment losses on advances to an associate	(681)	346
Write back of impairment losses on assets acquired under lending agreements	400	5,061
Net gains on disposals of available-for-sale securities	13,635	12,687
Net losses on disposals of fixed assets	(5,045)	(16)
Share of profits of an associate	31,352	14,309
Elimination of inter-segment profit before tax	<u>(116,553)</u>	<u>(286,829)</u>
Consolidated profit before tax	<u><u>312,541</u></u>	<u><u>26,651</u></u>
Assets		
Reportable segment assets	63,648,742	64,446,538
Unallocated advances to customers	–	135,100
Unallocated fixed assets	553,982	612,627
Interests in associates	532,353	386,510
Unallocated other assets	965,247	995,813
Elimination of inter-segment loans	<u>(3,920,689)</u>	<u>(5,597,288)</u>
Consolidated total assets	<u><u>61,779,635</u></u>	<u><u>60,979,300</u></u>
Liabilities		
Reportable segment liabilities	55,718,172	55,105,606
Unallocated other liabilities	<u>967,195</u>	<u>939,134</u>
Consolidated total liabilities	<u><u>56,685,367</u></u>	<u><u>56,044,740</u></u>

Geographical information

Geographical information analysis is based on the locations of the principal operations of the subsidiaries or on the location of the branches of the Bank responsible for reporting the results or booking the assets, the location of customers and the location of assets. For the years ended 31 December 2010 and 2009, all of the Group's operating income and profit before taxation were generated by assets booked by the branches and subsidiaries of the Bank located in Hong Kong.

Major Customers

For the years ended 31 December 2010 and 2009, no single customer or a group of customers under common control contributes 10% or more of the Group's revenues.

17. CASH AND SHORT-TERM FUNDS

	The Group		The Bank	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash in hand	99,367	112,170	99,367	112,170
Balances with the HKMA	661,488	2,020,875	661,488	2,020,875
Balances with banks	1,054,548	346,822	1,052,098	345,499
Money at call and short notice*	961,948	2,935,022	961,948	2,935,022
	<u>2,777,351</u>	<u>5,414,889</u>	<u>2,774,901</u>	<u>5,413,566</u>

* Money at call and short notice represents deposits of up to a maximum of one month maturity from the balance sheet date.

18. BALANCES WITH BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		The Bank	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Placements with banks maturing within:				
– 3 months or less but over 1 month	1,481,917	76,775	1,404,955	–
– 1 year or less but over 3 months	544,173	240,902	544,173	240,902
	<u>2,026,090</u>	<u>317,677</u>	<u>1,949,128</u>	<u>240,902</u>
Advances to other financial institutions	–	50,000	–	50,000
Amount due from banks under reverse repurchase agreements	109,579	–	109,579	–
	<u>2,135,669</u>	<u>367,677</u>	<u>2,058,707</u>	<u>290,902</u>

19. TRADING SECURITIES

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Trading securities at fair value</i>				
Treasury bills (including Exchange Fund Bills) – unlisted	962,662	100,496	962,662	100,496
Debt securities				
– Listed in Hong Kong	947	956	947	956
– Unlisted	3,049	3,968	3,049	3,968
Equity securities				
– Listed in Hong Kong	115	102	–	–
Total	<u>966,773</u>	<u>105,522</u>	<u>966,658</u>	<u>105,420</u>
<i>Trading securities are issued by:</i>				
– Governments and central banks	962,662	100,496	962,662	100,496
– Public sector entities	3,996	4,924	3,996	4,924
– Banks	6	39	–	–
– Corporate entities	109	63	–	–
	<u>966,773</u>	<u>105,522</u>	<u>966,658</u>	<u>105,420</u>

20. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group and the Bank	
	2010	2009
	HK\$'000	HK\$'000
<i>Debt securities at fair value</i>		
– Listed in Hong Kong	84,724	84,515
– Listed outside Hong Kong	–	247,109
– Unlisted	321,544	310,113
Total	<u>406,268</u>	<u>641,737</u>
<i>Financial assets designated at fair value through profit or loss are issued by:</i>		
– Public sector entities	–	81,853
– Banks	–	165,256
– Corporate entities	406,268	394,628
	<u>406,268</u>	<u>641,737</u>

Debt securities have been designated at fair value through profit or loss upon initial recognition when either the Group holds related derivatives at fair value through profit or loss and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise; or the debt securities are managed and evaluated on a fair value basis.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The sale to customers of derivatives as risk management products and the subsequent use of derivatives to manage the resulting positions is an integral part of the Group's business activities. Derivatives are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also purchases exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions or for balance sheet management. For accounting purposes, derivatives are classified as either held for trading, qualifying for hedge accounting, or managed in conjunction with financial instruments designated at fair value through profit or loss.

(a) Notional amounts of derivatives

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

	The Group and the Bank 2010			
	Qualifying for hedge accounting HK\$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK\$'000	Held for trading HK\$'000	Total HK\$'000
Exchange rate derivatives				
– Forwards	–	–	2,902,140	2,902,140
– Swaps	–	–	33,478,191	33,478,191
– Options purchased	–	–	3,059,047	3,059,047
– Options written	–	–	3,043,401	3,043,401
	–	–	42,482,779	42,482,779
Interest rate derivatives				
– Swaps	4,367,377	374,348	5,551,516	10,293,241
– Options purchased	–	–	227,584	227,584
	4,367,377	374,348	5,779,100	10,520,825
Equity derivatives				
– Swaps	–	–	342,802	342,802
– Options purchased	–	–	136,742	136,742
– Options written	–	–	136,742	136,742
	–	–	616,286	616,286
Total	4,367,377	374,348	48,878,165	53,619,890

	The Group and the Bank 2009			
	Qualifying for hedge accounting <i>HK\$'000</i>	Managed in conjunction with financial instruments designated at fair value through profit or loss <i>HK\$'000</i>	Held for trading <i>HK\$'000</i>	Total <i>HK\$'000</i>
Exchange rate derivatives				
– Forwards	–	–	3,686,721	3,686,721
– Swaps	–	–	8,734,426	8,734,426
– Options purchased	–	–	1,132,132	1,132,132
– Options written	–	–	1,128,639	1,128,639
	–	–	14,681,918	14,681,918
Interest rate derivatives				
– Swaps	3,941,867	592,685	11,085,267	15,619,819
– Options purchased	–	–	67,541	67,541
	3,941,867	592,685	11,152,808	15,687,360
Equity derivatives				
– Swaps	–	–	787,594	787,594
– Options purchased	–	–	133,185	133,185
– Options written	–	–	133,185	133,185
	–	–	1,053,964	1,053,964
Total	3,941,867	592,685	26,888,690	31,423,242

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

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

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

Credit risk-weighted amount refers to the amount as computed in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance. The amount depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100%.

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These amounts are shown on a gross basis without taking into account the effect of bilateral netting arrangements and are as below:

	The Group and the Bank					
	2010			2009		
	Fair value assets <i>HK\$'000</i>	Fair value liabilities <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>	Fair value assets <i>HK\$'000</i>	Fair value liabilities <i>HK\$'000</i>	Credit risk weighted amount <i>HK\$'000</i>
Exchange rate derivatives						
– Forwards	324,873	2,558	3,027	311,249	1,293	2,814
– Swaps	41,791	47,977	90,428	26,916	10,728	18,762
– Options purchased	12,503	–	32,238	651	–	2,668
– Options written	–	12,459	–	–	651	–
	<u>379,167</u>	<u>62,994</u>	<u>125,693</u>	<u>338,816</u>	<u>12,672</u>	<u>24,244</u>
Interest rate derivatives						
– Swaps	94,025	248,676	62,284	222,752	328,652	78,910
– Options purchased	1,857	–	–	1,649	–	–
	<u>95,882</u>	<u>248,676</u>	<u>62,284</u>	<u>224,401</u>	<u>328,652</u>	<u>78,910</u>
Equity derivatives						
– Swaps	15,079	15,079	13,912	65,598	65,598	11,770
– Options purchased	1,505	–	–	3,195	–	–
– Options written	–	1,505	–	–	3,195	–
	<u>16,584</u>	<u>16,584</u>	<u>13,912</u>	<u>68,793</u>	<u>68,793</u>	<u>11,770</u>
Other derivatives	–	249,060	–	–	241,779	–
Total	<u>491,633</u>	<u>577,314</u>	<u>201,889</u>	<u>632,010</u>	<u>651,896</u>	<u>114,924</u>

(c) Fair values of derivatives designated as hedging instruments

Fair value hedges

Fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of certain of the Bank's subordinated notes issued and certain fixed-rate debt securities due to movements in market interest rates.

The following is a summary of the fair values of derivatives held for hedging purposes entered into by the Group and the Bank:

	The Group and the Bank			
	2010		2009	
	Fair value assets HK\$'000	Fair value liabilities HK\$'000	Fair value assets HK\$'000	Fair value liabilities HK\$'000
Interest rate derivatives	42,304	215,011	91,435	113,207

(d) Remaining life of derivative instruments

The following table provides an analysis of the notional amounts of derivatives of the Group and the Bank by relevant maturity grouping based on the remaining periods to settlement at the balance sheet date.

2010	The Group and the Bank			
	Notional amounts with remaining life of			
	Total HK\$'000	1 year or less HK\$'000	Over 1 year to 5 years HK\$'000	Over 5 years HK\$'000
Exchange rate derivatives	42,482,779	41,979,368	503,411	–
Interest rate derivatives	10,520,825	5,697,335	3,163,650	1,659,840
Equity derivatives	616,286	340,738	275,548	–
Total	53,619,890	48,017,441	3,942,609	1,659,840

2009	The Group and the Bank			
	Notional amounts with remaining life of			
	Total HK\$'000	1 year or less HK\$'000	Over 1 year to 5 years HK\$'000	Over 5 years HK\$'000
Exchange rate derivatives	14,681,918	14,681,918	–	–
Interest rate derivatives	15,687,360	5,750,418	8,360,923	1,576,019
Equity derivatives	1,053,964	773,800	260,000	20,164
Total	31,423,242	21,206,136	8,620,923	1,596,183

22. ADVANCES TO CUSTOMERS LESS IMPAIRMENT ALLOWANCES

(a) Advances to customers less impairment allowances:

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Gross advances to customers	29,144,794	29,112,658	28,689,622	27,327,831
Less: Impairment allowances				
– Individual impairment allowances (Note 22(b))	(163,920)	(364,647)	(83,087)	(236,845)
– Collective impairment allowance (Note 22(b))	(119,903)	(176,044)	(110,419)	(143,288)
	<u>28,860,971</u>	<u>28,571,967</u>	<u>28,496,116</u>	<u>26,947,698</u>

(b) Movement in impairment allowances on advances to customers:

	The Group		The Bank	
	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowance HK\$'000
At 1 January 2010	364,647	176,044	236,845	143,288
Impairment losses charged to profit or loss (Note 11)	119,195	–	80,572	–
Impairment losses released back to profit or loss (Note 11)	(53,341)	(56,141)	(33,257)	(32,869)
Amounts written off	(273,484)	–	(205,197)	–
Recoveries of advances written off in previous years	13,118	–	10,339	–
Reclassification to other assets	(6,215)	–	(6,215)	–
At 31 December 2010	<u>163,920</u>	<u>119,903</u>	<u>83,087</u>	<u>110,419</u>

	The Group		The Bank	
	Individual impairment allowances HK\$'000	Collective impairment allowance HK\$'000	Individual impairment allowances HK\$'000	Collective impairment allowance HK\$'000
At 1 January 2009	181,872	114,106	91,637	69,169
Impairment losses charged to profit or loss (Note 11)	470,477	61,938	382,728	74,119
Impairment losses released back to profit or loss (Note 11)	(47,498)	–	(33,153)	–
Amounts written off	(258,861)	–	(213,898)	–
Recoveries of advances written off in previous years	18,657	–	9,531	–
At 31 December 2009	<u>364,647</u>	<u>176,044</u>	<u>236,845</u>	<u>143,288</u>

(c) Advances to customers analysed by industry sector

The following economic sector analysis of gross advances to customers is based on the categories and definitions used by the HKMA.

As at 31 December	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Gross advances for use in				
Hong Kong				
Industrial, commercial and financial				
– Property development	1,609,496	1,190,968	1,609,496	1,190,968
– Property investment	8,364,456	8,201,715	8,363,982	8,199,216
– Financial concerns	384,679	416,802	384,679	416,802
– Stockbrokers	–	13,745	–	13,745
– Wholesale and retail trade	415,608	64,511	414,693	61,979
– Manufacturing	1,496,567	1,666,263	1,473,625	1,604,722
– Transport and transport equipment	221,316	465,987	89,211	57,040
– Recreational activities	9,406	–	9,406	–
– Information technology	1,562	14,434	1,335	13,800
– Electricity and gas	234,000	–	234,000	–
– Others	1,946,682	2,321,393	1,887,764	2,163,042
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes	13,531	52,370	13,531	52,370
– Loans for the purchase of other residential properties	8,212,100	7,448,480	8,207,308	7,439,284
– Credit card advances	704,970	618,106	704,970	618,106
– Others	1,145,433	1,039,499	1,118,694	966,870
	24,759,806	23,514,273	24,512,694	22,797,944
Trade finance	1,047,909	809,641	1,047,909	809,641
Gross advances for use outside Hong Kong	<u>3,337,079</u>	<u>4,788,744</u>	<u>3,129,019</u>	<u>3,720,246</u>
Gross advances to customers	<u>29,144,794</u>	<u>29,112,658</u>	<u>28,689,622</u>	<u>27,327,831</u>

(d) Impaired advances to customers

	The Group			
	2010		2009	
	<i>HK\$'000</i>	<i>% of gross advances</i>	<i>HK\$'000</i>	<i>% of gross advances</i>
Gross impaired advances	192,754	0.66	518,722	1.78
Individual impairment allowances made against impaired loans	<u>(163,920)</u>		<u>(364,647)</u>	
	<u>28,834</u>		<u>154,075</u>	
Amount of collateral held in respect of impaired loans	<u>37,400</u>		<u>94,843</u>	
	The Bank			
	2010		2009	
	<i>HK\$'000</i>	<i>% of gross advances</i>	<i>HK\$'000</i>	<i>% of gross advances</i>
Gross impaired advances	97,190	0.34	315,330	1.15
Individual impairment allowances made against impaired loans	<u>(83,087)</u>		<u>(236,845)</u>	
	<u>14,103</u>		<u>78,485</u>	
Amount of collateral held in respect of impaired loans	<u>11,079</u>		<u>13,813</u>	

Collateral mainly comprises mortgage interests over residential properties and cash deposits with the Group. It includes an expected recovery of HK\$12.1 million (2009: HK\$11.9 million) from companies in liquidation and government guarantee schemes.

Impaired advances are individually assessed loans with objective evidence of impairment on an individual basis.

(e) Net investment in finance leases and hire purchase contracts

Advances to customers include the net investment in motor vehicles and equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of 3 to 5 years, with an option for acquiring the leased asset at nominal value. The total minimum lease payments receivable under finance leases and hire purchase contracts and their present values at the year end are as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total minimum lease payments due:				
– within 1 year	348,843	1,342,824	6,749	28,509
– after 1 year but within 5 years	93,037	417,012	–	1,045
– after 5 years	41,272	178,715	–	–
	<u>483,152</u>	<u>1,938,551</u>	<u>6,749</u>	<u>29,554</u>
Interest income relating to future periods	<u>(28,741)</u>	<u>(140,066)</u>	<u>(295)</u>	<u>(1,244)</u>
Present value of the minimum lease payment receivable	454,411	1,798,485	6,454	28,310
Collective impairment allowance	(9,710)	(33,022)	(226)	(574)
Individual impairment allowances	<u>(85,514)</u>	<u>(139,393)</u>	<u>(4,681)</u>	<u>(11,591)</u>
Net investment in finance leases and hire purchase contracts	<u><u>359,187</u></u>	<u><u>1,626,070</u></u>	<u><u>1,547</u></u>	<u><u>16,145</u></u>

The maturity profile of the present value of the minimum lease payments before impairment allowances is as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	331,772	1,259,545	6,454	27,279
After 1 year but within 5 years	86,311	385,907	–	1,031
After 5 years	<u>36,328</u>	<u>153,033</u>	<u>–</u>	<u>–</u>
	<u><u>454,411</u></u>	<u><u>1,798,485</u></u>	<u><u>6,454</u></u>	<u><u>28,310</u></u>

23. OTHER LOANS AND RECEIVABLES

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Debt securities at amortised cost	<u>2,802,314</u>	<u>3,392,218</u>
Of which:		
– Listed outside Hong Kong	<u>2,572,133</u>	<u>3,010,919</u>
– Unlisted	<u>230,181</u>	<u>381,299</u>
	<u>2,802,314</u>	<u>3,392,218</u>
Other loans and receivables are issued by:		
– Banks	<u>2,779,452</u>	<u>3,369,760</u>
– Corporate entities	<u>22,862</u>	<u>22,458</u>
	<u>2,802,314</u>	<u>3,392,218</u>

During 2008, the Group and the Bank reclassified certain available-for-sale investment securities which met the definition of loans and receivables (if they had not been designated as available-for-sale) and for which there was no longer an active market to loans and receivables. The fair value and carrying value of these securities on the date of reclassification was HK\$3,723.9 million. As at 31st December 2010, the carrying amount and fair value of these reclassified debt securities were HK\$2,802.3 million (2009: HK\$3,392.2 million) and HK\$2,482.3 million (2009: HK\$3,146.1 million) respectively.

The interest income recognised in the profit or loss in respect of these debt securities during 2010 was HK\$71.1 million (2009: HK\$107.0 million). The fair value change that would have been recognised in the investment revaluation reserve if those debt securities had not been reclassified would be a loss of HK\$46.5 million (2009: gain of HK\$181.7 million).

The above debt securities are neither past due nor impaired as at 31 December 2010 and 2009.

24. AVAILABLE-FOR-SALE SECURITIES

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed debt securities at fair value				
– Listed in Hong Kong	3,828,265	3,498,794	3,828,265	3,498,794
– Listed outside Hong Kong	5,351,014	4,708,120	5,351,014	4,708,120
	<u>9,179,279</u>	<u>8,206,914</u>	<u>9,179,279</u>	<u>8,206,914</u>
Unlisted debt securities at fair value				
– Treasury bills (including Exchange Fund Bills)	2,009,956	1,989,636	2,009,956	1,989,636
– Other debt securities	7,155,697	7,532,438	7,155,697	7,532,438
	<u>9,165,653</u>	<u>9,522,074</u>	<u>9,165,653</u>	<u>9,522,074</u>
Total debt securities	<u>18,344,932</u>	<u>17,728,988</u>	<u>18,344,932</u>	<u>17,728,988</u>
Equity shares at fair value				
– Unlisted	210,902	210,085	210,900	210,083
Total available-for-sale securities	<u>18,555,834</u>	<u>17,939,073</u>	<u>18,555,832</u>	<u>17,939,071</u>
<i>Available-for-sale securities are issued by:</i>				
– Governments and central banks	4,963,395	4,635,124	4,963,395	4,635,124
– Public sector entities	1,410,319	1,437,646	1,410,319	1,437,646
– Banks	9,799,914	8,601,322	9,799,914	8,601,322
– Corporate entities	2,382,206	3,264,981	2,382,204	3,264,979
	<u>18,555,834</u>	<u>17,939,073</u>	<u>18,555,832</u>	<u>17,939,071</u>

As at 31 December 2010, debt securities issued by banks include debt securities of fair value of HK\$350.8 million (2009: HK\$768.1 million) issued by multilateral development banks and debt securities of fair value of HK\$2.5 billion (2009: HK\$2.5 billion) guaranteed by governments.

The Bank has recognised HK\$15.1 million (2009: HK\$30.3 million) impairment loss on investments in structured investment vehicles (“SIVs”) in profit or loss during the year in accordance with the accounting policy set out in Note 2(m). HK\$13.1 million of the HK\$15.1 million impairment loss was realized from the investment revaluation deficit previously recognised. As of 31 December 2010, the fair value and carrying value of investments in SIVs was HK\$Nil (2009: HK\$1.0 million, included in “Other debt securities”)

In addition, the Bank had investments in collateralised debt obligations (“CDOs”) with a nominal value of US\$30 million (2009: US\$30 million). Embedded derivatives in the CDOs are bifurcated and marked to market. A revaluation loss of HK\$13.7 million (2009: HK\$0.7 million) on the embedded derivatives has been charged to profit or loss during the year. The carrying value of the investments in CDOs, inclusive of the revaluation loss on the embedded derivatives, as at 31 December 2010 was HK\$Nil (2009: HK\$13.1 million).

As at 31 December 2010, certain of the Group’s and the Bank’s available-for-sale equity securities with a fair value of HK\$37.9 million (2009: HK\$15.3 million) were individually determined to be impaired on the basis of a significant or prolonged decline in fair value below cost. Impairment losses on these investments of HK\$4.4 million (2009: HK\$36.8 million) were recognised in profit or loss during the year.

25. HELD-TO-MATURITY INVESTMENTS

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed debt securities at amortised cost		
– Listed in Hong Kong	74,826	–
– Listed outside Hong Kong	761,649	639,669
	<u>836,475</u>	<u>639,669</u>
Unlisted debt securities at amortised cost		
– Certificate of deposit held	155,478	–
– Other debt securities	1,470,728	262,553
	<u>1,626,206</u>	<u>262,553</u>
	<u>2,462,681</u>	<u>902,222</u>
<i>Held-to-maturity investments are issued by:</i>		
– Banks	2,231,211	745,123
– Corporate entities	231,470	157,099
	<u>2,462,681</u>	<u>902,222</u>
<i>Fair value of held-to-maturity investments:</i>		
– Listed securities	886,970	693,363
– Unlisted securities	1,558,641	291,793
	<u>2,445,611</u>	<u>985,156</u>

As of 31 December 2010, the certificate of deposit held has remaining contractual maturity over 5 years.

26. INTERESTS IN ASSOCIATES

	The Group		The Bank	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	5,761	5,761	514,362	388,651
Advances	7,128	8,059	7,128	8,059
Share of net assets	482,386	334,931	–	–
Goodwill	49,967	49,967	–	–
	<u>545,242</u>	<u>398,718</u>	<u>521,490</u>	<u>396,710</u>
Less: Impairment allowance on unlisted shares	(5,761)	(5,761)	(5,761)	(5,761)
Impairment allowance for advances to an associate	(7,128)	(6,447)	(7,128)	(6,447)
	<u>532,353</u>	<u>386,510</u>	<u>508,601</u>	<u>384,502</u>

The associates of the Bank are as follows:

	Place of establishment and operation	Proportion of ownership interest	Principal activities
IBA Finance Corporation	The Philippines	40.00%	Provision of financing and leasing services
Xiamen Bank Co., Ltd	The People's Republic of China	19.99%	Provision of banking and related finance services

The Bank is entitled to appoint three directors to the board of Xiamen Bank which comprises eleven directors. In view of the Bank's representation on the Board of Directors, Xiamen Bank is accounted for as an associated company as the directors believe they have significant influence.

The Group has not equity accounted for the investments in IBA Finance Corporation in view of the immaterial amount involved.

Summary of financial information of Xiamen Bank Co., Ltd.:

	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Equity <i>HK\$'000</i>	Revenues <i>HK\$'000</i>	Profit <i>HK\$'000</i>
2010					
100 per cent	62,401,319	59,988,183	2,413,137	1,498,304	156,843
Group's effective interest	12,474,024	11,991,638	482,386	299,511	31,352
2009					
100 per cent	32,274,423	30,598,931	1,675,492	955,899	71,580
Group's effective interest	6,451,657	6,116,726	334,931	191,084	14,309

27. INVESTMENTS IN SUBSIDIARIES

	The Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	<u>187,601</u>	<u>191,473</u>

All principal subsidiaries which affected the results, assets or liabilities of the Group, are directly owned by the Bank. Details of principal subsidiaries as of 31 December 2010 are as follows:

	Issued and fully paid-up ordinary share capital	% of ownership interest held	Net profit for the year	Principal activities
<i>Incorporated and operating in Hong Kong</i>				
Fubon Credit (Hong Kong) Limited	HK\$65,000,000	100%	HK\$38,834,000	Provision of financing services
FB Securities (Hong Kong) Limited	HK\$8,000,000	100%	HK\$40,678,000	Securities broking
FB Investment Management Limited	HK\$8,000,000	100%	HK\$934,000	Fund management
Fubon Nominees (Hong Kong) Limited	HK\$200	100%	HK\$1,000	Nominee service
Fubon Insurance Broker Limited	HK\$100,000	100%	HK\$1,217,000	Insurance broker services

28. FIXED ASSETS

The Group	Premises <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation			
At 1 January 2010	1,092,598	618,697	1,711,295
Additions	–	23,174	23,174
Disposals	–	(15,892)	(15,892)
	<u>1,092,598</u>	<u>625,979</u>	<u>1,718,577</u>
At 31 December 2010	<u>1,092,598</u>	<u>625,979</u>	<u>1,718,577</u>
Representing:			
Cost	1,019,985	625,979	1,645,964
Valuation – 1991	<u>72,613</u>	<u>–</u>	<u>72,613</u>
	<u>1,092,598</u>	<u>625,979</u>	<u>1,718,577</u>
Accumulated depreciation			
At 1 January 2010	160,497	471,704	632,201
Charge for the year (<i>Note 7</i>)	12,453	49,204	61,657
Released on disposal	–	(10,823)	(10,823)
	<u>172,950</u>	<u>510,085</u>	<u>683,035</u>
At 31 December 2010	<u>172,950</u>	<u>510,085</u>	<u>683,035</u>
Net book value			
At 31 December 2010	<u>919,648</u>	<u>115,894</u>	<u>1,035,542</u>
At 31 December 2009	<u>932,101</u>	<u>146,993</u>	<u>1,079,094</u>

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The Group	Premises <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation			
At 1 January 2009	1,092,598	590,500	1,683,098
Additions	–	33,921	33,921
Disposals	–	(5,724)	(5,724)
At 31 December 2009	<u>1,092,598</u>	<u>618,697</u>	<u>1,711,295</u>
Representing:			
Cost	1,019,985	618,697	1,638,682
Valuation – 1991	<u>72,613</u>	–	<u>72,613</u>
	<u>1,092,598</u>	<u>618,697</u>	<u>1,711,295</u>
Accumulated depreciation			
At 1 January 2009	148,044	422,775	570,819
Charge for the year (<i>Note 7</i>)	12,453	54,145	66,598
Released on disposal	–	(5,216)	(5,216)
At 31 December 2009	<u>160,497</u>	<u>471,704</u>	<u>632,201</u>
Net book value			
At 31 December 2009	<u>932,101</u>	<u>146,993</u>	<u>1,079,094</u>
At 31 December 2008	<u>944,554</u>	<u>167,725</u>	<u>1,112,279</u>

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The Bank	Premises <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation			
At 1 January 2010	1,055,849	616,106	1,671,955
Additions	–	23,128	23,128
Disposals	–	(15,892)	(15,892)
At 31 December 2010	<u>1,055,849</u>	<u>623,342</u>	<u>1,679,191</u>
Representing:			
Cost	983,236	623,342	1,606,578
Valuation – 1991	<u>72,613</u>	–	<u>72,613</u>
	<u>1,055,849</u>	<u>623,342</u>	<u>1,679,191</u>
Accumulated depreciation			
At 1 January 2010	155,796	469,612	625,408
Charge for the year	12,128	49,015	61,143
Released on disposal	–	(10,823)	(10,823)
At 31 December 2010	<u>167,924</u>	<u>507,804</u>	<u>675,728</u>
Net book value			
At 31 December 2010	<u>887,925</u>	<u>115,538</u>	<u>1,003,463</u>
At 31 December 2009	<u>900,053</u>	<u>146,494</u>	<u>1,046,547</u>

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The Bank	Premises <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation			
At 1 January 2009	1,055,849	587,831	1,643,680
Additions	–	33,921	33,921
Disposals	–	(5,646)	(5,646)
	<u>1,055,849</u>	<u>616,106</u>	<u>1,671,955</u>
At 31 December 2009	<u>1,055,849</u>	<u>616,106</u>	<u>1,671,955</u>
Representing:			
Cost	983,236	616,106	1,599,342
Valuation – 1991	72,613	–	72,613
	<u>1,055,849</u>	<u>616,106</u>	<u>1,671,955</u>
Accumulated depreciation			
At 1 January 2009	143,668	420,810	564,478
Charge for the year	12,128	53,958	66,086
Released on disposal	–	(5,156)	(5,156)
	<u>155,796</u>	<u>469,612</u>	<u>625,408</u>
At 31 December 2009	<u>155,796</u>	<u>469,612</u>	<u>625,408</u>
Net book value			
At 31 December 2009	<u>900,053</u>	<u>146,494</u>	<u>1,046,547</u>
At 31 December 2008	<u>912,181</u>	<u>167,021</u>	<u>1,079,202</u>

The net book value of those premises which have been stated in the balance sheet at valuation would have been as follows had they been stated at cost less accumulated depreciation:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net book value at 31 December	<u>13,971</u>	<u>14,377</u>

The analysis of net book value of premises is as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Premises held in Hong Kong				
– Long term leases (over 50 years)	613,459	616,940	581,736	584,892
– Medium term leases (10-50 years)	306,189	315,161	306,189	315,161
	<u>919,648</u>	<u>932,101</u>	<u>887,925</u>	<u>900,053</u>

29. GOODWILL

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost and carrying amounts		
At 31 December	<u>50,481</u>	<u>50,481</u>

The goodwill of HK\$514,000 in respect of the Group's interest in a subsidiary has been included in "accrued interest and other accounts". Goodwill of HK\$50.0 million in respect of the Group's interest in an associate has been included in "Interests in associates" (Note 26).

30. DEPOSITS AND BALANCES OF BANKS

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposits and balances from banks	1,594,193	2,268,102
Deposits and balances from the HKMA	<u>109,630</u>	<u>156,801</u>
	1,703,823	2,424,903
Amount due to banks under repurchase agreements	<u>1,678,970</u>	–
	<u>3,382,793</u>	<u>2,424,903</u>

31. DEPOSITS FROM CUSTOMERS

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Demand deposits and current accounts	8,376,505	8,840,719
Savings deposits	1,354,774	1,299,051
Call deposits	4,757,983	5,142,848
Time deposits	<u>31,548,899</u>	<u>31,319,557</u>
	<u>46,038,161</u>	<u>46,602,175</u>

32. TRADING LIABILITIES

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short positions in Exchange Fund Bills/Notes	<u>920,695</u>	<u>14,275</u>

33. FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Zero coupon bond issued	<u>263,986</u>	<u>201,096</u>

The zero coupon bond with a face value of HK\$520 million and issue price of 48.076615% was issued by the Bank on 12 April 2007. The maturity date for the bond is 12 April 2022 but it can be called by 12 April 2017 on the 10th anniversary of issuance. At the same time, the Bank entered into an interest rate swap to hedge the interest rate risk associated with the bond. Under the terms of the interest rate swap, the Bank makes quarterly floating rate interest payments and receives fixed rate interest income.

The carrying amount of financial liabilities designated at fair value through profit or loss at 31 December 2010 was HK\$256.0 million (2009: HK\$318.9 million) lower than the contractual amount at maturity for the Group and the Bank.

The zero coupon bond issued is measured at fair value using valuation techniques based on observable market conditions existing at balance sheet date; however data in respect of the Bank's credit risk volatilities and correlations require management's estimation. The total loss arising from the change in the fair value of the zero coupon bond recognised in profit or loss during the year is HK\$62.9 million (2009: HK\$27.7 million), of which there is a loss of HK\$41.2 million (2009: HK\$48.8 million) attributable to change of credit spread in line with the overall market conditions.

To the extent the Bank's credit risk volatilities that are not supported by observable market prices are altered by 10% in either direction the fair value of the zero coupon bond would be either lower by HK\$5.8 million (2009: HK\$8.6 million) or higher by HK\$6.0 million (2009: HK\$8.9 million).

34. CERTIFICATES OF DEPOSIT ISSUED

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
3 months or less but not repayable on demand	235,672	8,650
1 year or less but over 3 months	306,800	13,450
5 years or less but over 1 year	<u>255,479</u>	<u>300,000</u>
	<u>797,951</u>	<u>322,100</u>

All certificates of deposit issued are measured at amortised cost.

35. DEBT SECURITIES ISSUED

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Variable coupon rate notes	41,401	263,697
Zero coupon notes	<u>–</u>	<u>5,094</u>
	<u>41,401</u>	<u>268,791</u>

The variable coupon rate notes issued represent the notes issued by the Bank under the Bank's Euro Medium Term Note Programme and are denominated in USD and AUD, and mature at various dates through 2013. These notes issued are measured at amortised cost.

36. OTHER LIABILITIES

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other financial liabilities*	809,537	2,585,236	809,537	2,585,236
Accounts payable and other liabilities	716,197	1,333,943	679,232	1,295,839
	<u>1,525,734</u>	<u>3,919,179</u>	<u>1,488,769</u>	<u>3,881,075</u>

* Other financial liabilities include funds obtained from financial institutions in respect of government bills and notes sold but not yet purchased.

37. INCOME TAX IN THE BALANCE SHEET

(a) Current taxation (recoverable)/provision in the balance sheet represents:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax for the year	15,043	20,352	2,950	(3,243)
Provisional Hong Kong Profits Tax paid	(17,721)	(6,089)	–	–
	(2,678)	14,263	2,950	(3,243)
Balance of Hong Kong Profits Tax provision relating to prior years	(12,283)	(23,208)	(12,331)	(9,088)
	(14,961)	(8,945)	(9,381)	(12,331)
Provision for overseas taxation	54	76	74	76
	<u>(14,907)</u>	<u>(8,869)</u>	<u>(9,307)</u>	<u>(12,255)</u>
<i>Representing:</i>				
Hong Kong Profits Tax recoverable*	(17,677)	(12,630)	(9,381)	(12,331)
Provision for Hong Kong Profits Tax*	2,716	3,685	–	–
Overseas taxation recoverable*	(20)	–	–	–
Provision for overseas taxation*	74	76	74	76
	<u>(14,907)</u>	<u>(8,869)</u>	<u>(9,307)</u>	<u>(12,255)</u>

* The amounts of taxation recoverable and payable are expected to be settled within 1 year and are included in the "Accrued interest and other assets" and "Other liabilities" respectively.

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated balance sheet and the movements during the year are as follows:

The Group

	Depreciation allowances in excess of related depreciation <i>HK\$'000</i>	Defined benefit scheme assets <i>HK\$'000</i>	Collective impairment allowance <i>HK\$'000</i>	Revaluation of available- for-sale securities <i>HK\$'000</i>	Revaluation of premises <i>HK\$'000</i>	Other <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2009	(12,699)	(2,733)	18,828	60,335	(6,288)	24,827	82,270
Credited in arriving at the profit for the year (<i>Note 12(a)</i>)	1,891	–	10,220	–	114	4,088	16,313
Charged to other comprehensive income (<i>Note 13</i>)	–	–	–	(63,507)	–	–	(63,507)
At 31 December 2009	<u>(10,808)</u>	<u>(2,733)</u>	<u>29,048</u>	<u>(3,172)</u>	<u>(6,174)</u>	<u>28,915</u>	<u>35,076</u>
At 1 January 2010	(10,808)	(2,733)	29,048	(3,172)	(6,174)	28,915	35,076
(Charged)/credited in arriving at the profit for the year (<i>Note 12(a)</i>)	3,364	2,733	(9,195)	–	114	(27,922)	(30,906)
Charged to other comprehensive income (<i>Note 13</i>)	–	–	–	(2,405)	–	–	(2,405)
At 31 December 2010	<u>(7,444)</u>	<u>–</u>	<u>19,853</u>	<u>(5,577)</u>	<u>(6,060)</u>	<u>993</u>	<u>1,765</u>

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The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year are as follows:

The Bank

	Depreciation allowances in excess of related depreciation <i>HK\$'000</i>	Defined benefit scheme assets <i>HK\$'000</i>	Collective impairment allowance <i>HK\$'000</i>	Revaluation of available- for-sale securities <i>HK\$'000</i>	Revaluation of premises <i>HK\$'000</i>	Other <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2009	(11,756)	(2,733)	11,413	60,335	(6,288)	24,194	75,165
Credited in arriving at the profit for the year	1,895	–	12,230	–	114	4,721	18,960
Charged to other comprehensive income	–	–	–	(63,507)	–	–	(63,507)
At 31 December 2009	<u>(9,861)</u>	<u>(2,733)</u>	<u>23,643</u>	<u>(3,172)</u>	<u>(6,174)</u>	<u>28,915</u>	<u>30,618</u>
At 1 January 2010	(9,861)	(2,733)	23,643	(3,172)	(6,174)	28,915	30,618
(Charged)/credited in arriving at the profit for the year	3,375	2,733	(5,356)	–	114	(27,922)	(27,056)
Charged to other comprehensive income	–	–	–	(2,405)	–	–	(2,405)
At 31 December 2010	<u>(6,486)</u>	<u>–</u>	<u>18,287</u>	<u>(5,577)</u>	<u>(6,060)</u>	<u>993</u>	<u>1,157</u>

Deferred tax assets and liabilities recognised is summarised as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net deferred tax asset recognised on the balance sheet	1,811	35,144	1,157	30,618
Net deferred tax liability recognised on the balance sheet	(46)	(68)	–	–
	<u>1,765</u>	<u>35,076</u>	<u>1,157</u>	<u>30,618</u>

(c) Deferred tax assets unrecognised

The Group has no material unrecognised deferred tax asset as at 31 December 2010 (2009: HK\$Nil).

38. SUBORDINATED NOTES ISSUED

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$200 million 6.125% subordinated notes issued in 2006*	1,596,605	1,640,257
US\$200 million 6.125% subordinated notes issued in 2010**	<u>1,540,681</u>	<u>–</u>
	<u><u>3,137,286</u></u>	<u><u>1,640,257</u></u>

* Subordinated notes with face value of US\$200 million (equivalent to HK\$1,554.8 million) and carrying amount of HK\$1,596.6 million (2009: HK\$1,640.3 million) which qualify as supplementary capital were issued by the Bank on 25 April 2006. The notes bear interest at 6.125% per annum for the period from the issuance date to 26 April 2011, payable semi-annually. The notes carry a one-time call option exercisable by the Bank on 26 April 2011. If the call option is not exercised, the interest rate for the subordinated notes will be reset at the United States treasury rate plus 1.93875% for the period from 27 April 2011 to the final maturity date on 26 April 2016, payable semi-annually.

The carrying amount of these subordinated notes includes an adjustment of HK\$41.8 million (2009: HK\$89.3 million) due to the application of fair value hedge accounting.

** Subordinated notes with face value of US\$200 million (equivalent to HK\$1,554.8 million) and carrying amount of HK\$1,540.7 million which qualify as supplementary capital were issued by the Bank on 30 November 2010 and mature on 30 November 2020.

If at any time the Hong Kong Monetary Authority (“HKMA”) decides (having regard to the applicable regulatory framework) that these subordinated notes no longer qualify as supplementary capital, the Bank may, on or after 1 January 2013 at its option and subject to the prior written approval of the HKMA, provide notice to such effect to Noteholders, such notice being a “Change in Status Notice”. Upon a Change in Status Notice becoming effective, these subordinated notes shall cease to constitute subordinated obligations of the Bank and shall thereafter constitute direct, unconditional, unsubordinated and unsecured obligations of the Bank and shall at all times thereafter rank pari passu and without any preference among themselves. The payment obligations of the Bank under these subordinated notes shall, save for such exceptions as may be provided by applicable legislation, at all times thereafter rank at least equally with all its other present and future unsecured and unsubordinated obligations including liabilities in respect of deposits.

These subordinated notes bear interest at 6.125% per annum, payable semi-annually. Upon a Change in Status Notice becoming effective, the interest rate for these subordinated notes will become 5.625% per annum, payable semi-annually. These subordinated notes are stated at amortised cost.

39. SHARE CAPITAL

	2010 HK\$'000	2009 HK\$'000
<i>Authorised:</i>		
1,406,592,000 (2009: 1,406,592,000) ordinary shares of HK\$1 each	1,406,592	1,406,592
1,172,160,000 (2009: 1,172,160,000) irredeemable cumulative preference shares of US\$0.10237 each	<u>929,966</u>	<u>929,966</u>
	<u><u>2,336,558</u></u>	<u><u>2,336,558</u></u>
<i>Issued and fully paid:</i>		
1,172,160,000 (2009: 1,172,160,000) ordinary shares of HK\$1 each	1,172,160	1,172,160
1,172,160,000 (2009: 1,172,160,000) irredeemable cumulative preference shares of US\$0.10237 each	<u>925,359</u>	<u>925,359</u>
	<u><u>2,097,519</u></u>	<u><u>2,097,519</u></u>

The holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at a general meeting of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

The irredeemable cumulative preference shares bear a cumulative preference dividend at a fixed rate of 9% per annum, payable semi-annually, on their nominal amount and rank in priority to the ordinary shares with respect to the payment of dividends and any return of capital. Irredeemable cumulative preference shares do not carry voting rights. The Bank may elect not to declare or pay the preference dividend if, during the 12 calendar months preceding a date on which the preference dividend is due to be paid in respect of the preference shares, no dividend or distribution or other payment has been declared or paid on any class of the share capital of the Bank. The deferred preference dividends will not themselves bear interest and the terms of the preference shares will not provide for payment of any form of compensation to the preference shareholders other than payment of the preference dividend.

40. SHARE PREMIUM

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

41. RESERVES AND DIVIDENDS

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

The Bank	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Regulatory reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2009	372,000	12,969	150,010	(276,620)	1,085,023	1,343,382
Total comprehensive income for the year	–	–	–	308,493	163,852	472,345
– Profit for the year	–	–	–	–	163,852	163,852
– Other comprehensive income:						
Available-for-sale securities: net movement in investment revaluation reserve	–	–	–	308,493	–	308,493
Dividend approved and paid in respect of the previous financial year (<i>Note 41(g)</i>)	–	–	–	–	(17,582)	(17,582)
Interim dividend paid (<i>Note 41(g)</i>)	–	–	–	–	(17,582)	(17,582)
Preference share dividend paid during the year (<i>Note 41(g)</i>)	–	–	–	–	(81,886)	(81,886)
Equity settled share-based transactions	–	2,715	–	–	–	2,715
At 31 December 2009 and 1 January 2010	372,000	15,684	150,010	31,873	1,131,825	1,701,392
Total comprehensive income for the year	–	–	–	(2,582)	304,987	302,405
– Profit for the year	–	–	–	–	304,987	304,987
– Other comprehensive income						
Available-for-sale securities: net movement in investment revaluation reserve	–	–	–	(2,582)	–	(2,582)
Dividend approved and paid in respect of the previous financial year (<i>Note 41(g)</i>)	–	–	–	–	(17,582)	(17,582)
Interim dividend paid (<i>Note 41(g)</i>)	–	–	–	–	(23,443)	(23,443)
Preference share dividend paid during the year (<i>Note 41(g)</i>)	–	–	–	–	(83,887)	(83,887)
Equity settled share-based transactions	–	10,755	–	–	–	10,755
At 31 December 2010	<u>372,000</u>	<u>26,439</u>	<u>150,010</u>	<u>29,291</u>	<u>1,311,900</u>	<u>1,889,640</u>

(a) Capital redemption reserve

The capital redemption reserve arose from the redemption of the Bank's "A" and "B" preference shares in 1991 and 1992 out of its retained earnings. The capital redemption reserve is undistributable under the Hong Kong Companies Ordinance section 79 C(2) but may be applied by the Bank in paying up its unissued shares to be allotted to its members as fully paid bonus shares.

(b) Capital reserve

The capital reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Bank by the ultimate holding company which has been charged to profit or loss. Details of the terms and conditions of unexpired and unexercised share options are set out in Note 7.

(c) Foreign exchange reserve

The foreign exchange reserve of the Group comprises all foreign exchange differences arising from the translations of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 2(s).

(d) Regulatory reserve

	The Group		The Bank	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
At 1 January and 31 December	<u>175,211</u>	<u>175,211</u>	<u>150,010</u>	<u>150,010</u>

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

(e) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities, excluding impairment losses, until the securities are derecognised and is dealt with in accordance with the accounting policies in Note 2(g).

(f) Distributability of reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to equity shareholders of the Bank was HK\$1,308,169,000 (2009: HK\$1,128,103,000) after taking consideration of HK\$3,731,000 (2009: HK\$3,722,000) payable to preference share holders.

(g) Dividends*(i) Dividends declared and proposed attributable to the financial year*

	2010 HK\$'000	2009 HK\$'000
Interim dividend declared and paid of 2.0 cents (2009: 1.5 cents) per share	23,443	17,582
Final dividend of 3.0 cents (2009: 1.5 cents) per share proposed after the balance sheet date	<u>35,165</u>	<u>17,582</u>
	<u>58,608</u>	<u>35,164</u>

The final dividend has not been recognised as a liability at the balance sheet date.

(ii) *Dividends attributable to the previous financial year, approved and paid during the year*

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the period of 1.5 cents (2009: 1.5 cents) per share	<u>17,582</u>	<u>17,582</u>

(iii) *Dividends on irredeemable cumulative preference shares issued by the Bank*

Dividends of HK\$83,887,000 (2009: HK\$81,886,000) were paid and charged to retained earnings during the year.

42. NON-CONTROLLING INTERESTS

	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	2,691	3,152
Loss for the year	(673)	(461)
Return of capital on deregistration of a subsidiary	<u>(96)</u>	<u>–</u>
At 31 December	<u>1,922</u>	<u>2,691</u>

43. CASH AND CASH EQUIVALENTS

(a) **Cash and cash equivalents in the consolidated cash flow statement**

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and balances with banks	1,815,403	2,479,867
Money at call and short notice (<i>Note 17</i>)	961,948	2,935,022
Treasury bills with original maturity within three months	64,975	100,496
Placements with banks with original maturity within three months	<u>1,404,178</u>	<u>76,775</u>
	<u>4,246,504</u>	<u>5,592,160</u>

(b) Reconciliation to the consolidated balance sheet

	The Group	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and short term funds (<i>Note 17</i>)	2,777,351	5,414,889
Treasury bills		
– Trading securities (<i>Note 19</i>)	962,662	100,496
– Available-for-sale-securities (<i>Note 24</i>)	2,009,956	1,989,636
Balances with banks and other financial institutions (<i>Note 18</i>)	<u>2,026,090</u>	<u>317,677</u>
Amount shown in the consolidated balance sheet	7,776,059	7,822,698
Less: Amount with an original maturity of over three months	<u>(3,529,555)</u>	<u>(2,230,538)</u>
Cash and cash equivalents in the consolidated cash flow statement	<u>4,246,504</u>	<u>5,592,160</u>

44. EMPLOYEE RETIREMENT BENEFITS

(a) Defined benefit retirement plans

The Group operates a retirement scheme, namely the Fubon Bank (Hong Kong) Limited Retirement Scheme (“the Scheme”), which incorporates a defined benefits plan for 43% (2009: 47%) of its full time employees. The Scheme is administered by trustees who are independent. The assets of the Scheme are held separately from those of the Group. The Group has secured Mandatory Provident Fund (“MPF”) exemption status for the Scheme. The Scheme is funded by contributions from the Group in accordance with the trust deed governing the Scheme and based on an independent actuary’s recommendations. The latest independent actuarial valuation of the Scheme was at 31 December 2010 and was prepared by Alan Oates, Fellow of the Institute of Actuaries, of Mercer (Hong Kong) Limited using the projected unit credit cost method. The actuarial valuation indicates that the Group’s obligations under the Scheme are 82.29% (2009: 75.06%) covered by the plan assets held by the trustee.

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Present value of wholly or partly funded obligations	(234,723)	(270,743)
Fair value of Scheme’s assets	193,146	203,211
Unrecognised actuarial losses	<u>46,894</u>	<u>52,332</u>
Net asset/(liability) recognised in the balance sheet	<u>5,317</u>	<u>(15,200)</u>
Amounts in the balance sheet:		
Liabilities	–	(15,200)
Assets	<u>5,317</u>	<u>–</u>
Net asset/(liability)	<u>5,317</u>	<u>(15,200)</u>

The asset of HK\$5.3 million (2009: liability of HK\$15.2 million) is included in “Other assets” (2009: Other liabilities).

The Scheme’s assets include ordinary shares issued by the Bank with a fair value of HK\$6,777,000 (2009: HK\$6,891,000).

- (b) Expense recognised in “Operating expenses – staff costs” in the statement of comprehensive income is as follows:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current service cost	23,421	30,744
Interest cost on obligation	6,806	3,755
Amortisation of actuarial (gain)/loss	(2,230)	8,416
Expected return on Scheme's assets	(10,336)	(10,927)
	<u>17,661</u>	<u>31,988</u>

The actual return on the Scheme's assets for the year ended 31 December 2010 amounted to approximately HK\$1,951,000 deficit (2009: HK\$11,948,000 surplus).

- (c) Amounts for the current and previous years

	The Group and the Bank				
	2010	2009	2008	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Defined benefit obligation	234,723	270,743	322,075	244,040	200,815
Plan assets	193,146	203,211	213,419	197,898	182,029
Net deficit	(41,577)	(67,532)	(108,656)	(46,142)	(18,786)
Experience gains / (losses) on scheme liabilities	8,327	12,629	(4,269)	(4,997)	(2,760)
Experience gains / (losses) on scheme assets	12,287	1,021	(2,497)	5,002	(4,186)

- (d) Changes in the present value of the defined benefit obligation are as follows:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening defined benefit obligation	270,743	322,075
Current service cost	23,421	30,744
Interest cost	6,806	3,755
Participants' contributions	6,339	8,181
Benefits paid	(37,830)	(45,918)
Premiums paid	(340)	(396)
Actuarial gain on obligation during the year	(34,416)	(47,698)
Closing defined benefit obligation	<u>234,723</u>	<u>270,743</u>

(e) Composition of the plan assets are as follows:

	The Group and the Bank	
	2010	2009
	HK\$'000	HK\$'000
Investments and money market	96,382	125,534
Bank balances and cash	97,048	76,744
Others	(284)	933
	<u>193,146</u>	<u>203,211</u>

(f) Changes in the fair value of plan assets are as follows:

	The Group and the Bank	
	2010	2009
	HK\$'000	HK\$'000
Opening fair value of plan assets	203,211	213,419
Actual return	(1,951)	11,948
Assets distributed on settlements	(37,830)	(45,918)
Premiums paid	(340)	(396)
Contributions by employers and employees	<u>30,056</u>	<u>24,158</u>
Closing fair value of plan assets	<u>193,146</u>	<u>203,211</u>

(g) The principal actuarial assumptions used as at 31 December 2010 are as follows:

	The Group and the Bank	
	2010	2009
	HK\$'000	HK\$'000
Discount rate	2.2% p.a.	2.6% p.a.
Long-term rate of return on assets	5.0% p.a.	5.0% p.a.
Future salary increases	4.5%	1.0% p.a. for 2010 and 4.5% p.a. thereafter

The long term rate of return on assets (5.0% p.a. for calculating the 2011 net cost) is based on the minimum investment guarantee that is applied to the Scheme's assets.

(h) Mandatory Provident Fund Scheme ("MPF Scheme")

The Group also operates an MPF scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the Scheme. The Group participates in an approved MPF scheme with the Bank Consortium Trust Company Limited to provide a scheme choice to both existing and new employees. The MPF scheme is a defined contribution retirement scheme administered by an independent trustee.

Under the MPF scheme, the employer and its employees are each required to make mandatory contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

In addition to the mandatory contribution, employees will have an one-off election to make a voluntary contribution of 5% of employee's relevant income. At the same time, the employer will make a matching voluntary contribution accordingly.

45. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Credit related commitments and contingencies

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

The following is a summary of the contractual and credit risk-weighted amounts of each significant class of credit related commitments and contingencies:

	The Group				
	2010		2009		
	Contractual	Credit risk	Contractual	Credit risk	
	amounts	weighted	amounts	weighted	
	HK\$'000	amounts	HK\$'000	amounts	HK\$'000
Direct credit substitutes	71,606	71,606	236,073	126,073	
Transaction-related contingencies	21,408	10,704	29,193	14,597	
Trade-related contingencies	385,469	77,094	158,264	31,653	
Undrawn loan facilities					
– which are unconditionally cancellable	13,348,722	–	11,301,472	–	
– with an original maturity of up to 1 year	32,276	6,455	–	–	
– with an original maturity of 1 year or over	441,253	220,627	296,321	148,161	
	<u>14,300,734</u>	<u>386,486</u>	<u>12,021,323</u>	<u>320,484</u>	

	The Bank				
	2010		2009		
	Contractual	Credit risk	Contractual	Credit risk	
	amounts	weighted	amounts	weighted	
	HK\$'000	amounts	HK\$'000	amounts	HK\$'000
Direct credit substitutes	77,606	77,606	243,573	133,573	
Transaction-related contingencies	21,408	10,704	29,193	14,597	
Trade-related contingencies	385,469	77,094	158,264	31,653	
Undrawn loan facilities					
– which are unconditionally cancellable	13,348,722	–	11,301,472	–	
– with an original maturity of up to 1 year	32,276	6,455	–	–	
– with an original maturity of 1 year or over	441,253	220,627	296,321	148,161	
	<u>14,306,734</u>	<u>392,486</u>	<u>12,028,823</u>	<u>327,984</u>	

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

(b) Lease commitments

At 31 December, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Properties:		
– Within one year	26,665	34,735
– After 1 year but within 5 years	15,852	30,843
	<u>42,517</u>	<u>65,578</u>

(c) Capital commitments

Capital commitments for purchase of equipment and available-for-sale investments outstanding at 31 December not provided for in the financial statements were as follows:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for	<u>172,429</u>	<u>157,429</u>

46. TRUST ACTIVITIES

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as the Group does not control the assets.

47. FAIR VALUES OF FINANCIAL INSTRUMENTS

(a) Financial instruments carried at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

APPENDIX I
**FINANCIAL INFORMATION RELATING TO
THE FUBON BANK GROUP**

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value treatment is categorised:

2010	The Group			Total
	Level 1	Level 2	Level 3	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets				
Trading securities	963,724	3,049	–	966,773
Financial assets designated at fair value through profit or loss	84,724	–	321,544	406,268
Derivative financial instruments	–	468,122	23,511	491,633
Available-for-sale securities	11,151,066	6,951,393	453,375	18,555,834
	<u>12,199,514</u>	<u>7,422,564</u>	<u>798,430</u>	<u>20,420,508</u>
Liabilities				
Trading liabilities	920,695	–	–	920,695
Financial liabilities designated at fair value through profit or loss	–	263,986	–	263,986
Derivative financial instruments	–	320,678	256,636	577,314
	<u>920,695</u>	<u>584,664</u>	<u>256,636</u>	<u>1,761,995</u>
2009				
	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets				
Trading securities	101,554	3,968	–	105,522
Financial assets designated at fair value through profit or loss	331,624	–	310,113	641,737
Derivative financial instruments	–	483,439	148,571	632,010
Available-for-sale securities	9,777,601	7,611,964	549,508	17,939,073
	<u>10,210,779</u>	<u>8,099,371</u>	<u>1,008,192</u>	<u>19,318,342</u>
Liabilities				
Trading liabilities	14,275	–	–	14,275
Financial liabilities designated at fair value through profit or loss	–	201,096	–	201,096
Derivative financial instruments	–	283,873	368,023	651,896
	<u>14,275</u>	<u>484,969</u>	<u>368,023</u>	<u>867,267</u>

2010	The Bank			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Assets				
Trading securities	963,609	3,049	–	966,658
Financial assets designated at fair value through profit or loss	84,724	–	321,544	406,268
Derivative financial instruments	–	468,122	23,511	491,633
Available-for-sale securities	11,151,066	6,951,393	453,373	18,555,832
	<u>12,199,399</u>	<u>7,422,564</u>	<u>798,428</u>	<u>20,420,391</u>
Liabilities				
Trading liabilities	920,695	–	–	920,695
Financial liabilities designated at fair value through profit or loss	–	263,986	–	263,986
Derivative financial instruments	–	320,678	256,636	577,314
	<u>920,695</u>	<u>584,664</u>	<u>256,636</u>	<u>1,761,995</u>
2009				
	The Bank			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Assets				
Trading securities	101,452	3,968	–	105,420
Financial assets designated at fair value through profit or loss	331,624	–	310,113	641,737
Derivative financial instruments	–	483,439	148,571	632,010
Available-for-sale securities	9,777,601	7,611,964	549,506	17,939,071
	<u>10,210,677</u>	<u>8,099,371</u>	<u>1,008,190</u>	<u>19,318,238</u>
Liabilities				
Trading liabilities	14,275	–	–	14,275
Financial liabilities designated at fair value through profit or loss	–	201,096	–	201,096
Derivative financial instruments	–	283,873	368,023	651,896
	<u>14,275</u>	<u>484,969</u>	<u>368,023</u>	<u>867,267</u>

During the year 2010 and 2009, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

(i) *Valuation of financial instruments with significant unobservable inputs*

The following methods have been applied in determining the fair values of financial instruments under Level 3 of the fair value hierarchy:

- (i) the fair value of unquoted equity investments is estimated using the net asset value as reported by management of the investee companies;

- (ii) the fair value of unlisted investment funds is estimated using the net asset value as reported by the managers of such funds;
- (iii) the fair value of structured investment vehicles, collateralised debt obligations and certain debt securities is estimated using the net asset value as reported by the respective counterparties; and
- (iv) the fair value of certain structured debt securities is estimated based on an independent external valuation reports with a discount to take into account the legal risk of the recovery process.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

Assets

	The Group			
	Financial assets designated at fair value through profit or loss HK\$'000	Derivative financial instruments HK\$'000	Available- for-sale securities HK\$'000	Total HK\$'000
2010				
At 1 January 2010	310,113	148,571	549,508	1,008,192
Purchases	22,076	–	90,337	112,413
Sales	(936)	–	(96,551)	(97,487)
Settlements	–	–	(75,128)	(75,128)
Changes in carrying value recognised in profit or loss	–	–	985	985
Changes in fair value recognised in profit or loss:				
– Impairment losses on available-for-sale securities	–	–	(2,928)	(2,928)
– Other operating income	(9,709)	(125,060)	–	(134,769)
Changes in fair value recognised in other comprehensive income	–	–	(12,848)	(12,848)
At 31 December 2010	<u>321,544</u>	<u>23,511</u>	<u>453,375</u>	<u>798,430</u>
Total gains or losses for the year included in other comprehensive income for assets held at the balance sheet date	<u>–</u>	<u>–</u>	<u>3,695</u>	<u>3,695</u>
Total gains or losses for the year included in profit or loss for assets held at the balance sheet date	<u>(9,709)</u>	<u>(197,123)</u>	<u>420</u>	<u>(206,412)</u>

Assets	The Group			
	Financial assets designated at fair value through profit or loss <i>HK\$'000</i>	Derivative financial instruments <i>HK\$'000</i>	Available-for-sale securities <i>HK\$'000</i>	Total <i>HK\$'000</i>
2009				
At 1 January 2009	–	498,925	601,116	1,100,041
Purchases	320,823	–	32,041	352,864
Sales	–	–	(20,590)	(20,590)
Settlements	–	–	(13,720)	(13,720)
Changes in carrying value recognised in the profit or loss	–	–	6,684	6,684
Changes in fair value recognised in the profit or loss:				
– Impairment losses on available-for-sale securities	–	–	(42,661)	(42,661)
– Other operating income	(10,710)	(350,354)	–	(361,064)
Changes in fair value recognised in other comprehensive income	–	–	(13,362)	(13,362)
At 31 December 2009	<u>310,113</u>	<u>148,571</u>	<u>549,508</u>	<u>1,008,192</u>
Total gains or losses for the year included in other comprehensive income for assets held at the balance sheet date	<u>–</u>	<u>–</u>	<u>9,264</u>	<u>9,264</u>
Total gains or losses for the year included in profit or loss for assets held at the balance sheet date	<u>(10,710)</u>	<u>(406,460)</u>	<u>(39,361)</u>	<u>(456,531)</u>

Assets	The Bank			
	Financial assets designated at fair value through profit or loss <i>HK\$'000</i>	Derivative financial instruments <i>HK\$'000</i>	Available-for-sale securities <i>HK\$'000</i>	Total <i>HK\$'000</i>
2010				
At 1 January 2010	310,113	148,571	549,506	1,008,190
Purchases	22,076	–	90,337	112,413
Sales	(936)	–	(96,551)	(97,487)
Settlements	–	–	(75,128)	(75,128)
Changes in carrying value recognised in profit or loss	–	–	985	985
Changes in fair value recognised in profit or loss:				
– Impairment losses on available-for-sale securities	–	–	(2,928)	(2,928)
– Other operating income	(9,709)	(125,060)	–	(134,769)
Changes in fair value recognised in other comprehensive income	–	–	(12,848)	(12,848)
At 31 December 2010	<u>321,544</u>	<u>23,511</u>	<u>453,373</u>	<u>798,428</u>
Total gains or losses for the year included in other comprehensive income for assets held at the balance sheet date	<u>–</u>	<u>–</u>	<u>3,695</u>	<u>3,695</u>
Total gains or losses for the year included in profit or loss for assets held at the balance sheet date	<u>(9,709)</u>	<u>(197,123)</u>	<u>420</u>	<u>(206,412)</u>

Assets	The Bank			Total HK\$'000
	Financial assets designated at fair value through profit or loss HK\$'000	Derivative financial instruments HK\$'000	Available- for-sale securities HK\$'000	
2009				
At 1 January 2009	–	498,925	601,116	1,100,041
Purchases	320,823	–	32,039	352,862
Sales	–	–	(20,590)	(20,590)
Settlements	–	–	(13,720)	(13,720)
Changes in carrying value recognised in the profit or loss	–	–	6,684	6,684
Changes in fair value recognised in the profit or loss:				
– Impairment losses on available-for-sale securities	–	–	(42,661)	(42,661)
– Other operating income	(10,710)	(350,354)	–	(361,064)
Changes in fair value recognised in other comprehensive income	–	–	(13,362)	(13,362)
At 31 December 2009	<u>310,113</u>	<u>148,571</u>	<u>549,506</u>	<u>1,008,190</u>
Total gains or losses for the year included in other comprehensive income for assets held at the balance sheet date	<u>–</u>	<u>–</u>	<u>9,264</u>	<u>9,264</u>
Total gains or losses for the year included in profit or loss for assets held at the balance sheet date	<u>(10,710)</u>	<u>(406,460)</u>	<u>(39,361)</u>	<u>(456,531)</u>

Liabilities	The Group and the Bank Derivative financial instruments	
2010	<i>HK\$'000</i>	Total HK\$'000
At 1 January 2010	(368,023)	(368,023)
Changes in fair value recognised in the profit or loss		
– Revaluation loss on collateralised debt obligation	(13,673)	(13,673)
– Other operating income	125,060	125,060
	<u>(256,636)</u>	<u>(256,636)</u>
At 31 December 2010	<u>(256,636)</u>	<u>(256,636)</u>
Total gains or losses for the year included in profit or loss for liabilities held at the balance sheet date	<u>183,450</u>	<u>183,450</u>
 Liabilities		
	The Group and the Bank Derivative financial instruments	
2009	<i>HK\$'000</i>	Total HK\$'000
At 1 January 2009	(717,696)	(717,696)
Changes in fair value recognised in the profit or loss		
– Revaluation loss on collateralised debt obligation	(681)	(681)
– Other operating income	350,354	350,354
	<u>(368,023)</u>	<u>(368,023)</u>
At 31 December 2009	<u>(368,023)</u>	<u>(368,023)</u>
Total gains or losses for the year included in profit or loss for liabilities held at the balance sheet date	<u>405,779</u>	<u>405,779</u>

- (ii) *Effect of changes in significant unobservable assumptions to reasonably possible alternative assumptions*

Although the Group believes that its estimates of fair value are appropriate, the use of different methodology or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3 of the fair value hierarchy, a 10% change in either direction in the net asset value reported by respective counterparties would have the following effects:

2010	The Group and the Bank			
	Effect on profit or loss		Effect on other comprehensive income	
	Favourable HK\$'000	Unfavourable HK\$'000	Favourable HK\$'000	Unfavourable HK\$'000
Assets				
Financial assets designated at fair value through profit or loss	32,154	(32,154)	–	–
Available-for-sale securities	2,037	(2,037)	43,300	(43,300)
Derivatives financial instruments	2,351	(2,351)	–	–
Liabilities				
Derivatives financial instruments	25,664	(25,664)	–	–
2009	The Group and the Bank			
	Effect on profit or loss		Effect on other comprehensive income	
	Favourable HK\$'000	Unfavourable HK\$'000	Favourable HK\$'000	Unfavourable HK\$'000
Assets				
Financial assets designated at fair value through profit or loss	31,011	(31,011)	–	–
Available-for-sale securities	1,523	(1,523)	53,428	(53,428)
Derivatives financial instruments	14,857	(14,857)	–	–
Liabilities				
Derivatives financial instruments	36,802	(36,802)	–	–

(b) Fair values of financial instruments carried at other than fair value

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in the table below:

- (i) the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date;
- (ii) the fair value of variable rate financial instruments and loans is assumed to be approximated by their carrying amounts. Changes in the credit quality of these financial instruments and loans are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value; and

- (iii) the fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

The carrying amount of the Group's and the Bank's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2010 and 2009 except as follows:

The Group	2010		2009	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
<i>Financial assets</i>				
Advances to customers	1,116,708	1,089,773	1,963,397	1,969,613
Other loans and receivables	2,802,314	2,482,312	3,392,218	3,146,132
Held-to-maturity investments	2,462,681	2,445,611	902,222	985,156
<i>Financial liabilities</i>				
Other liabilities	809,537	811,815	2,585,236	2,592,553
The Bank	2010		2009	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
<i>Financial assets</i>				
Advances to customers	853,631	848,980	694,025	692,171
Other loans and receivables	2,802,314	2,482,312	3,392,218	3,146,132
Held-to-maturity investments	2,462,681	2,445,611	902,222	985,156
<i>Financial liabilities</i>				
Other liabilities	809,537	811,815	2,585,236	2,592,553

48. MATERIAL RELATED PARTY TRANSACTIONS

During the year, the Group entered into a number of transactions with its ultimate holding company and related parties, including Taipei Fubon Commercial Bank Co., Ltd. These transactions were entered into in the ordinary course of the Group's banking business and included, inter alia, lending, placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced at the relevant market rates at the time of each transaction, and were on the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors, these transactions were conducted on normal commercial terms.

Information relating to income and expenses from related party transactions during the year and balances outstanding as at the balance sheet date is set out below:

(a) Income/expenses

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Fellow subsidiaries</i>		
Interest income	1,691	825
Interest expense	3,561	9,281
	The Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Subsidiaries</i>		
Interest income	1,715	26,859
Interest expense	224	1,278
Fee and commission income	7,985	5,789
Fee and commission expense	53,214	52,459

(b) Placement of deposits

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Fellow subsidiaries</i>		
At 1 January	–	55,000
Placements during the year	44,097,205	86,172,219
Repayments during the year	(43,003,206)	(86,227,219)
At 31 December	<u>1,093,999</u>	<u>–</u>
<i>Fellow subsidiaries</i>		
Cash and short-term funds	<u>23,876</u>	<u>12,615</u>
<i>Fellow subsidiaries</i>		
Accrued interest and other assets	<u>731</u>	<u>–</u>

There was no impairment allowance made against the above placement of deposits with related parties.

(c) Acceptance of deposits

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Ultimate holding company</i>		
At 1 January	340	4,214
Acceptances during the year	56,172	239,293
Repayments during the year	<u>(56,512)</u>	<u>(243,167)</u>
At 31 December	<u>–</u>	<u>340</u>
<i>Fellow subsidiaries</i>		
At 1 January	587,750	1,164,740
Acceptances during the year	4,655,778	10,583,832
Repayments during the year	<u>(5,010,311)</u>	<u>(11,160,822)</u>
At 31 December	<u>233,217</u>	<u>587,750</u>
<i>Ultimate holding company</i>		
Deposits and balances of banks	<u>40,075</u>	<u>89,067</u>
<i>Fellow subsidiaries</i>		
Deposits from customers	<u>7,002</u>	<u>6,752</u>

(d) Financial Instruments

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Fellow subsidiary</i>		
Derivative contracts (notional principal)	<u>2,478,607</u>	<u>842,042</u>

(e) Loans to officers

Loans to officers of the Bank disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Aggregate amount of relevant loans at 31 December		
– by the Bank	9,115	10,525
– by a subsidiary	<u>–</u>	<u>–</u>
	<u>9,115</u>	<u>10,525</u>
Maximum aggregate amount of relevant loans outstanding during the year		
– by the Bank	13,368	35,361
– by a subsidiary	<u>–</u>	<u>–</u>
	<u>13,368</u>	<u>35,361</u>

There was no interest due but unpaid nor any impairment allowance made against these loans at 31 December 2010 (2009: Nil).

(f) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Bank's Directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9 is as follows:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
Salaries and short-term employee benefits	<u>55,003</u>	<u>47,791</u>

Total remuneration is included in "staff cost" (see Note 7).

Several key management personnel have been granted unlisted physically settled options over shares of the Bank's ultimate holding company, Fubon Financial Holding Co., Ltd. with various vesting periods for services rendered to the Group. The share based payment expense is included in "staff cost" (see Note 7). Key management personnel are defined as directors and members of the management committee.

(g) Credit facilities to key management personnel

During the year, the Bank provided loans and credit facilities to key management personnel of the Group and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with other employees. The amounts involved, other than transactions with the ultimate holding company and fellow subsidiaries, are set out below.

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loans, at 31 December	<u>11,087</u>	<u>12,686</u>
Interest income	<u>263</u>	<u>870</u>
Credit facilities, at 31 December	<u>5,060</u>	<u>4,740</u>

No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no individually assessed impairment allowance been made on the above balances at the year end.

The Bank's policies for lending to related parties take into account the requirements under the Hong Kong Banking Ordinance, the guidelines of the HKMA and the Listing Rules. The Group sets internal limits – individual and aggregate group limits for individual, group, secured and unsecured exposures – and carefully monitors exposure to related parties, whether individual or corporate, and takes the necessary measures to control the risk of connected lending. Approvals are made by the Credit Committee, Managing Director and/or the Executive Credit Committee.

49. ASSETS PLEDGED AS SECURITY

The following assets have been pledged as collateral for own liabilities at the balance sheet date:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured liabilities	<u>3,409,202</u>	<u>2,599,511</u>
<i>Assets pledged:</i>		
Trading securities	99,760	100,496
Available-for-sale securities	<u>3,235,789</u>	<u>2,320,926</u>
	<u>3,335,549</u>	<u>2,421,422</u>

The following balances with banks have been pledged as collateral for margin deposits of derivatives at the balance sheet date:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Margin accounts for derivative contracts	<u>7,774</u>	<u>69,282</u>

These transactions are conducted under usual and customary terms.

50. FINANCIAL RISK MANAGEMENT

This section presents information about the Group's exposure to and its management and control of risks, in particular, the primary risks associated with its use of financial instruments:

- Credit risk: losses resulting from customer or counterparty default and arising from credit exposures in all forms, including settlement risk.
- Market risk: exposures to market variables such as interest rates, exchange rates and equity markets.
- Liquidity and funding risk: risk that the Group is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.
- Operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

The Group has established policies and procedures to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date management and information systems. The Group continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal Audit also performs regular audits to ensure compliance with the policies and procedures.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

(a) Credit risk management

This category includes credit and counterparty risk from loans and advances, issuer risk from holding securities, counterparty risk from trading activities and country risk. Credit risk arises from the potential that a borrower or counterparty will fail to perform under an obligation. It arises from the lending, trading, treasury, derivatives and other activities of the Group. The Group identifies and manages credit risk through its (a) target market definitions, (b) credit approval process, (c) post-disbursement monitoring and (d) remedial management procedures. These policies and procedures are documented in the Group's credit policies, which define the overall credit policies covering credit extension criteria, the credit approval authorities delegated from the Board, the credit monitoring processes, the loan grading system and loan impairment policy.

The Board of Directors delegates credit approval authorities to the following in descending order of authority: the Executive Credit Committee, the Chief Executive Officer and the Credit Committee.

The Credit Committee carries out the Bank's credit risk management functions. It meets once a week and is responsible for approving, advising and recommending to the Chief Executive the approval of credit exposures in accordance with the credit authority limits. The Credit Committee also reviews and implements measures on credit risk management and controls and plays a key role in credit monitoring. In addition, it reviews loans extended by lending officers and provides guidelines to all lending officers to assist them in monitoring the credit risk of the loan portfolio.

The credit departments, Enterprise Credit Risk Management Department and Consumer Credit Risk Management Department, receive their authority and delegated responsibilities from the Credit Committee to provide centralised management of credit risk. They are responsible for:

- independent evaluation of credit applications, which covers facility details, credit grade determination, risk review and analysis and financial spreads;

- credit risk management and control of cross-border exposures including debt securities issued by corporations, and sovereigns as well as those exposures to banks and other financial institutions;
- portfolio management of risk concentrations;
- maintenance of the loan grading system; and
- reporting to the Risk Management Committee regularly on aspects of the loan portfolio. This includes information on large credit exposures, industry exposures, country exposures and levels of loan impairment.

In addition, the Group has also established guidelines to ensure that each new product is designed and reviewed by a product committee with respect to the risks involved, including among others, operational risk, legal risk, reputational risk and credit risk. All relevant departments are required to put in place the appropriate processes, systems and controls before the product is approved by the New Product and Commitment Committee.

Specific policies and measures to address different kinds of credit related activities are set out below:

(i) *Corporate lending*

In addition to compliance with the Group's underwriting standards, credit risk is managed by conducting a thorough credit evaluation and obtaining proper approval for the proposed credit transactions. Subject to the size of the facility and the risk grading of the borrower, different extents of credit evaluation and levels of credit approval are required to ensure the proper credit risk management measures are exercised. Credit approval also takes into account facility structure, tenor, the repayment ability of the prospective borrower and available security.

The Group has established limits for exposures to individual industries and for borrowers and groups of borrowers, regardless of whether the credit exposure is in the form of loans or non-funded exposures. The Group also undertakes ongoing credit analysis and monitoring at several levels. The policies and procedures also take into account the requirements of the Hong Kong Banking Ordinance, guidelines issued by the HKMA with respect to large exposures and provisioning requirements and best market practices.

The credit risk management procedures are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The Enterprise Credit Risk Management Department monitors overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis. Relevant management reports are submitted to the Senior Management, the Credit Committee and the Risk Management Committee regularly for their review. The loan portfolio reports include information regarding large exposures, country exposure, industry exposure and loan impairment etc.

(ii) *Consumer credit risk*

The Group's consumer credit risk policy and approval process are designed to address relatively homogeneous consumer banking products such as credit cards, unsecured personal loan and mortgage loans. Because of the nature of consumer banking, the credit policies are primarily based on statistical analyses of risks with respect to different products and types of customers. The Consumer Credit Risk Management Department (CCRM) is responsible for conducting regular review and monitoring of consumer credit risk, including acquisition and portfolio risk management. CCRM is also responsible for the determination and revision of product terms and desired customer profiles on regular basis by developing, validating and fine-tuning of internal scorecard(s) and model(s). In addition, CCRM reviews and updates the existing policies on underwriting, loan classification, loan impairment and write-off on regular basis.

(iii) *Credit risk for treasury transactions*

The credit risk of the Group's treasury transactions is managed the same way as the Group manages its corporate lending risk. The Group sets individual limits to its counterparties based on its risk assessment.

Unlike on-balance sheet instruments, where the credit risk is generally represented by the principal value or the notional amount, credit risk for derivatives is the positive replacement cost together with an estimate for the potential future exposure from changes in its market value. These credit exposures, together with potential future exposure from market movements, are managed as part of the overall lending limits to the counterparties. The credit risk exposure on derivatives is disclosed in Note 21(b) of this annual report. The Group uses the current exposure method for the purpose of providing capital for such counterparty exposures.

(iv) *Credit-related commitments*

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

(v) *Concentration of credit risk*

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified along industry and product sectors etc but is concentrated in Hong Kong.

Analysis of credit risk concentration of respective financial assets is disclosed in Notes 18 to 25.

(vi) *Credit risk mitigation*

The Group's credit assessment primarily relies on an evaluation of the obligor's repayment ability based on the obligor's cash flow and financial condition. In addition, the Group employs various credit risk mitigation techniques such as appropriate facility structuring, posting of collateral and/or third party support as well as transfer of risk to other third parties, which form an integral part of the credit risk management process. There is immaterial credit and market risk concentration within the credit risk mitigations used by the Group. The most commonly used credit risk mitigation measures are provided below:

Collateral

The Group holds collateral against loans and advances to customers in the form of cash deposits, marketable securities, mortgage interest over property, inventory, equipment and other physical collateral, and guarantees. The Group has in place policies and procedures that govern the assessment, acceptance and the periodic valuation of eligible collateral. For collateral taken to secure corporate and retail loans, the collateral is revalued periodically ranging from daily to semi-annually depending on the type of collateral taken. For treasury operations, any collateral taken is marked to market on a periodic basis that is mutually agreed with the counterparty.

Master netting agreements

Collateral generally is not held over loans and advances extended to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. However, where applicable, the Group manages its credit exposure to banks by entering into master netting arrangements whenever it is appropriate and feasible to do so. The netting arrangement results in the settlement of counterparty exposure on a net basis in the event a default occurs.

The Group's preferred agreement for documenting derivatives activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or following other pre-agreed termination events.

It is also common for the Group to execute a Credit Support Annex in conjunction with the ISDA Master Agreement with the counterparty under which collateral is passed between the parties to mitigate the market contingent counterparty risk inherent in outstanding positions.

Other credit risk mitigation measures

The Group also uses guarantees for credit risk mitigation. While the Group may accept guarantees from any counterparty, it sets a threshold internally for considering eligible guarantors.

(vii) *Maximum exposure to credit risk*

The maximum exposure to credit risk at the balance sheet date without taking into consideration any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure to credit risk for the various components of the balance sheet, contingencies and commitments is as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Credit risk exposures relating to on-balance sheet assets:</i>				
Cash and short-term funds	2,677,984	5,302,719	2,675,534	5,301,396
Balances with banks and other financial institutions	2,135,669	367,677	2,058,707	290,902
Trading securities	966,658	105,420	966,658	105,420
Financial assets designated at fair value through profit or loss	406,268	641,737	406,268	641,737
Derivative financial instruments	491,633	632,010	491,633	632,010
Advances to customers less impairment allowances	28,860,971	28,571,967	28,496,116	26,947,698
Other loans and receivables	2,802,314	3,392,218	2,802,314	3,392,218
Accrued interest and other assets	723,735	1,479,757	682,262	1,433,164
Available-for-sale securities	18,344,932	17,728,988	18,344,932	17,728,988
Held-to-maturity investments	2,462,681	902,222	2,462,681	902,222
Interests in associates	–	1,612	–	1,612
<i>Credit risk exposures relating to off-balance sheet items:</i>				
Financial guarantees and other credit related contingent liabilities	478,483	423,530	484,483	431,030
Loan commitments and other credit related commitments	<u>13,822,251</u>	<u>11,597,793</u>	<u>13,822,251</u>	<u>11,597,793</u>
	<u><u>74,173,579</u></u>	<u><u>71,147,650</u></u>	<u><u>73,693,839</u></u>	<u><u>69,406,190</u></u>

(viii) Credit quality of loans and advances

At 31 December 2010 and 2009, no loans and advances to banks were impaired. The credit quality of advances to customers can be analysed as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired	28,939,976	28,517,036	28,591,194	27,007,972
Past due but not impaired	12,064	76,900	1,238	4,529
Impaired	192,754	518,722	97,190	315,330
	<u>29,144,794</u>	<u>29,112,658</u>	<u>28,689,622</u>	<u>27,327,831</u>
Of which:				
Gross loans and advances to customers that are neither past due nor impaired				
– Grade 1: Pass	28,879,605	28,165,878	28,533,378	26,671,436
– Grade 2: Special mention	60,371	351,158	57,816	336,536
	<u>28,939,976</u>	<u>28,517,036</u>	<u>28,591,194</u>	<u>27,007,972</u>

The Group classifies advances to customers in accordance with the loan classification system required to be adopted for reporting to the HKMA.

The ageing analysis of advances to customers that are past due but not impaired is as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross loans and advances to customers that are past due but not impaired				
– Overdue 3 months or less	10,921	76,900	1,238	4,529
– Overdue 6 months or less but over 3 months	1,143	–	–	–
– Overdue 1 year or less but over 6 months	–	–	–	–
– Overdue over 1 year	–	–	–	–
	<u>12,064</u>	<u>76,900</u>	<u>1,238</u>	<u>4,529</u>

Loans and advances that would be past due or impaired had the terms not been renegotiated amounted to HK\$199,855,000 as at 31 December 2010 (2009: HK\$471,352,000).

No items in “Other loans and receivables” are overdue or impaired as at 31 December 2010 and 2009.

Analysis of other loans and receivables by credit rating designation at 31 December, based on Standard & Poor's ratings or their equivalent is as follows:

	The Group and the Bank	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
AA- to AA+	230,188	603,490
A- to A+	1,687,812	1,848,401
Lower than A-	884,314	940,327
	<u>2,802,314</u>	<u>3,392,218</u>

(ix) *Credit quality of financial assets other than loans and advances*

Credit risk that arises from investments in financial assets or debt securities is managed in the same way as the Group manages its corporate lending risk with the exposure being part of the overall lending limits to the counterparties. It is the Group's credit policy not to invest in debt securities that are below the grading of BBB+ from Standard & Poor's Rating Services or A-3 from Moody's Investors Services at the time of investing. Analysis of debt securities by credit rating designation at 31 December, based on Standard & Poor's ratings or their equivalent is as follows:

2010	The Group and the Bank				
	Trading securities	Designated at fair value through profit or loss	Available-for-sale securities	Held-to-maturity investments	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
AAA	603	-	3,773,777	-	3,774,380
AA- to AA+	966,055	-	10,249,597	1,159,772	12,375,424
A- to A+	-	84,724	3,921,340	1,302,909	5,308,973
Lower than A-	-	-	313,224	-	313,224
Unrated	-	321,544	86,994	-	408,538
	<u>966,658</u>	<u>406,268</u>	<u>18,344,932</u>	<u>2,462,681</u>	<u>22,180,539</u>

2009	The Group and the Bank				
	Trading securities	Designated at fair value through profit or loss	Available-for-sale securities	Held-to-maturity investments	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
AAA	-	-	4,421,002	-	4,421,002
AA- to AA+	105,420	81,853	10,005,833	262,553	10,455,659
A- to A+	-	249,771	2,577,124	639,669	3,466,564
Lower than A-	-	-	715,792	-	715,792
Unrated	-	310,113	9,237	-	319,350
	<u>105,420</u>	<u>641,737</u>	<u>17,728,988</u>	<u>902,222</u>	<u>19,378,367</u>

Included in “financial assets designated at fair value through profit or loss” of the Group and the Bank as at 31 December 2010 are debt securities with fair value of HK\$321.5 million (2009: HK\$310.1 million) which are overdue.

(x) *Collateral and other credit enhancements*

An estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

	The Group		The Bank	
	2010	2009	2010	2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fair value of collateral and other credit enhancements held against financial assets that are:				
– Neither past due nor impaired	48,716,335	46,913,341	47,012,624	41,397,702
– Past due but not impaired	21,671	153,385	150	113,851
– Impaired	25,277	94,843	2,827	13,813
	<u>48,763,283</u>	<u>47,161,569</u>	<u>47,015,601</u>	<u>41,525,366</u>

(xi) *Collateral and other credit enhancements obtained*

During the year, the Group obtained assets by taking possession of collateral held as security, as follows:

	The Group and the Bank	
	2010	2009
	HK\$'000	HK\$'000
Carrying amount of assets obtained:		
– Residential property	<u>–</u>	<u>16,900</u>

As at 31 December 2010, total repossessed assets and assets acquired under lending agreements of the Group and the Bank amounted to HK\$26,700,000 (2009: HK\$31,480,000).

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets.

(b) **Market risk management**

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and other derivative instruments, as well as from balance sheet or structural positions. The Bank transacts in the money market, foreign exchange market, equity market and capital market giving rise to market risk exposures. Positions are taken as a result of the execution of customers' orders, and market making activities, and offsetting transactions taken in order to hedge the Bank's open position. The Bank does not engage in significant proprietary trading.

The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the Group's exposure to the volatility inherent in financial instruments.

The Board reviews and approves policies for the management of market risks including dealing authorities and limits. The Board has delegated the responsibility for ongoing general market risk management to the Asset and Liability Committee. This committee articulates the interest rate view of the Bank and decides on future business strategy with respect to interest rates. It also reviews and sets funding policy and ensures adherence to risk management objectives.

The Group has also established clear market risk policies, including limits, reporting lines and control procedures, which are reviewed regularly and approved by the Board. Market risk is managed within various limits approved by the Board. These limits are determined for each financial instrument and include limits on product volume, gross and net positions, position concentrations, mark to market limits, stop loss limits and risk position limits.

The sale of derivatives to customers as risk management products and the subsequent use of derivatives to manage the resulting position is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also purchases exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other positions.

One of the tools used by the Group to monitor and limit market risk exposure is Value-at-risk (VAR). VAR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The calculation uses the variance-covariance model as the means to estimate the statistical confidence level.

The VAR technique is only effective for potential loss events which are not correlated. The Group therefore augments its VAR limits with other positions and sensitivity limit structures. Additionally, the Group applies a wide range of sensitivity analysis, both on individual portfolios and on the Group's consolidated positions to assess the potential impact on the Group's earnings as a result of extreme movements in market prices.

(i) *Sensitivity analysis of market risk exposures*

Trading market risk

Currency risk

At 31 December 2010, if Hong Kong Dollar had strengthened by 0.5% against other currencies, with all other variables held constant, the profit before tax for the year would have been HK\$0.2 million lower (2009: HK\$0.5 million higher).

Conversely, if Hong Kong Dollar had weakened by 0.5% against other currencies, with all other variables held constant, the profit before tax for the year would have been HK\$0.2 million higher (2009: HK\$0.5 million lower).

Interest rate risk

The Group measures trading book interest rate risks through Present Value of Basis Point (PVBP). PVBP is a sensitivity test to measure the potential profit or loss fluctuation on interest rate positions upon a basis point movement.

The Group adopts a sensitivity test of a 25 basis points movement. At 31 December 2010, 25 basis points upward movement in interest rate would result in a downward profit movement of HK\$1.78 million (2009: HK\$20,758). Conversely, 25 basis points downward movement in interest rate would result in an upward profit movement of HK\$1.78 million (2009: HK\$20,758).

Equity risk

At 31 December 2010, if the Hang Seng Index had increased by 10% with all other variables held constant and all the equity instruments move according to the historical correlation with the index, earnings for the year would have been HK\$12,134 higher (2009: HK\$10,746).

Conversely, at 31 December 2010, if Hang Seng Index had decreased by 10% with all other variables held constant and all the equity instruments move according to the historical correlation with the index, earnings for the year would have been HK\$12,134 lower (2009: HK\$10,746).

Non-trading market risk

Interest rate risk

Interest rate risk primarily results from timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also related to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed by the treasury department within limits approved by the Board, including interest rate gap limits. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by the Asset and Liability Committee.

At 31 December 2010, if other market variables including prime rate were held constant, an increase in HKD market interest rates of 25 basis points would result in an increase in earnings over the next 12 months of HK\$0.3 million (2009: HK\$0.8 million decrease), or an increase in economic value of HK\$6.5 million (2009: HK\$11.8 million increase); while an increase in USD market interest rates of 25 basis points would result in a decrease in earnings over the next 12 months of HK\$9.8 million (2009: HK\$16.5 million decrease), or an increase in economic value of HK\$22.3 million (2009: HK\$27.3 million increase).

Conversely, if other market variables including prime rate were held constant, a decrease in HKD market interest rates of 25 basis points would result in a decrease in earnings over the next 12 months of HK\$0.3 million (2009: HK\$0.8 million increase), or a decrease in economic value of HK\$6.5 million (2009: HK\$11.8 million decrease); while a decrease in USD market interest rates of 25 basis points would result in an increase in earnings over the next 12 months of HK\$9.8 million (2009: HK\$16.5 million increase), or a decrease in economic value of HK\$22.3 million (2009: HK\$27.3 million decrease).

Equity risk

At 31 December 2010 and 2009, the Group does not hold non-trading listed equity securities. As such, movement in the Hang Seng Index would have no impact on the Group.

The Group holds non-trading unlisted equity investments and uses the net asset value reported by the management of the investee companies to determine the fair value of the investment. A sensitivity analysis on the fair value of these unlisted equity investments is disclosed in Note 47(a)(ii).

The method and assumptions used in the above sensitivity analysis on interest rate risk, currency risk and equity risk are performed on the same basis for both 2009 and 2010.

(ii) *Currency risk*

The Group's foreign currency positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign currency positions are managed by Financial Markets within limits approved by the Board. Structural foreign currency positions arise mainly on foreign currency investments in the Group's subsidiaries and associates of HK\$461.0 million as of 31 December 2010 (2009: HK\$339.2 million). The Group seeks to match closely its foreign currency denominated assets with corresponding liabilities in the same currencies.

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

The Group (Equivalent in HK\$'000)	2010				
	US Dollars	Chinese Renminbi	Australian Dollars	Philippines Pesos	Other currencies
ASSETS					
Cash and short-term funds	1,012,722	952,845	7,155	29	40,325
Balances with banks and other financial institutions	1,935,669	–	–	–	–
Financial assets designated at fair value through profit or loss	324,812	–	–	–	–
Advances to customers less impairment allowances	4,126,100	–	–	–	54,134
Other loans and receivables	2,391,460	–	–	–	410,854
Accrued interest and other assets	213,987	217	42,227	–	48,698
Available-for-sale securities	9,076,638	60,168	2,679,671	–	1,952,088
Held-to-maturity investments	2,462,681	–	–	–	–
Interests in associates	–	532,353	–	–	–
Fixed assets	–	293	–	–	–
Spot assets	<u>21,544,069</u>	<u>1,545,876</u>	<u>2,729,053</u>	<u>29</u>	<u>2,506,099</u>
LIABILITIES					
Deposits and balances of banks	1,958,191	–	166	–	214,919
Deposits from customers	13,976,826	904,767	2,349,691	–	2,099,148
Certificates of deposit issued	210,362	–	–	–	–
Debt securities issued	30,318	–	11,083	–	–
Other liabilities	473,194	3,477	8,623	–	20,317
Subordinated notes issued	<u>3,137,286</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Spot liabilities	<u>19,786,177</u>	<u>908,244</u>	<u>2,369,563</u>	<u>–</u>	<u>2,334,384</u>
Net on-balance sheet position	<u>1,757,892</u>	<u>637,632</u>	<u>359,490</u>	<u>29</u>	<u>171,715</u>
Off-balance sheet position					
Foreign exchange derivative contracts	<u>(1,230,705)</u>	<u>(75,542)</u>	<u>(372,900)</u>	<u>–</u>	<u>(171,513)</u>
Net aggregate position	<u>527,187</u>	<u>562,090</u>	<u>(13,410)</u>	<u>29</u>	<u>202</u>
Credit commitments and other contingent liabilities in foreign currencies	<u>545,774</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>175,431</u>

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The Group (Equivalent in HK\$'000)	US Dollars	2009 Chinese Renminbi	Other currencies
ASSETS			
Cash and short-term funds	2,960,720	209,608	89,954
Balances with banks and other financial institutions	92,285	–	225,392
Financial assets designated at fair value through profit or loss	570,118	–	–
Advances to customers less impairment allowances	4,583,658	–	42,053
Other loans and receivables	2,956,404	–	435,814
Accrued interest and other assets	259,115	9,084	97,973
Available-for-sale securities	8,667,449	28,403	4,177,505
Held-to-maturity investments	902,222	–	–
Interests in associates	–	384,898	1,612
Spot assets	<u>20,991,971</u>	<u>631,993</u>	<u>5,070,303</u>
LIABILITIES			
Deposits and balances of banks	589,134	–	265,624
Deposits from customers	15,758,256	208,665	4,882,275
Debt securities issued	120,435	–	4,812
Other liabilities	279,692	121,671	40,406
Subordinated notes issued	1,640,257	–	–
Spot liabilities	<u>18,387,774</u>	<u>330,336</u>	<u>5,193,117</u>
Net on-balance sheet position	<u>2,604,197</u>	<u>301,657</u>	<u>(122,814)</u>
Off-balance sheet position			
Foreign exchange derivative contracts	(1,909,774)	–	112,987
Net aggregate position	<u>694,423</u>	<u>301,657</u>	<u>(9,827)</u>
Credit commitments and other contingent liabilities in foreign currencies	<u>349,052</u>	<u>–</u>	<u>44,950</u>

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The Bank (Equivalent in HK\$'000)	2010				
	US Dollars	Chinese Renminbi	Australian Dollars	Philippines Pesos	Other currencies
ASSETS					
Cash and short-term funds	1,011,357	952,786	7,155	29	40,131
Balances with banks and other financial institutions	1,858,707	–	–	–	–
Financial assets designated at fair value through profit or loss	324,812	–	–	–	–
Advances to customers less impairment allowances	4,126,100	–	–	–	54,134
Other loans and receivables	2,391,460	–	–	–	410,854
Accrued interest and other assets	207,780	197	42,227	–	48,699
Available-for-sale securities	9,076,636	60,168	2,679,672	–	1,952,088
Held-to-maturity investments	2,462,681	–	–	–	–
Interests in associates	–	508,601	–	–	–
Investments in subsidiaries	77,581	–	–	–	247
Amounts due from subsidiaries	850	–	–	–	–
Fixed assets	–	293	–	–	–
Spot assets	<u>21,537,964</u>	<u>1,522,045</u>	<u>2,729,054</u>	<u>29</u>	<u>2,506,153</u>
LIABILITIES					
Deposits and balances of banks	1,958,192	–	166	–	214,919
Deposits from customers	13,978,088	904,766	2,349,694	–	2,099,632
Certificates of deposit issued	210,362	–	–	–	–
Debt securities issued	30,318	–	11,083	–	–
Other liabilities	239,961	3,126	8,623	–	20,187
Amounts due to subsidiaries	6,010	–	3	–	589
Subordinated notes issued	3,137,286	–	–	–	–
Spot liabilities	<u>19,560,217</u>	<u>907,892</u>	<u>2,369,569</u>	<u>–</u>	<u>2,335,327</u>
Net on-balance sheet position	<u>1,977,747</u>	<u>614,153</u>	<u>359,485</u>	<u>29</u>	<u>170,826</u>
Off-balance sheet position					
Foreign exchange derivative contracts	(1,230,705)	(75,542)	(372,900)	–	(171,513)
Net aggregate position	<u>747,042</u>	<u>538,611</u>	<u>(13,415)</u>	<u>29</u>	<u>(687)</u>
Credit commitments and other contingent liabilities in foreign currencies	<u>545,774</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>175,431</u>

The Bank (Equivalent in HK\$'000)	US Dollars	2009 Chinese Renminbi	Other currencies
ASSETS			
Cash and short-term funds	2,960,016	209,555	89,730
Balances with banks and other financial institutions	15,510	–	225,392
Financial assets designated at fair value through profit or loss	570,118	–	–
Advances to customers less impairment allowances	4,583,658	–	42,053
Other loans and receivables	2,956,404	–	435,814
Accrued interest and other assets	253,755	9,084	97,962
Available-for-sale securities	8,667,447	28,403	4,177,505
Held-to-maturity investments	902,222	–	–
Interests in associates	–	382,890	1,612
Investments in subsidiaries	77,581	–	247
Amounts due from subsidiaries	848	–	–
Spot assets	<u>20,987,559</u>	<u>629,932</u>	<u>5,070,315</u>
LIABILITIES			
Deposits and balances of banks	589,134	–	265,624
Deposits from customers	15,758,256	208,665	4,882,275
Debt securities issued	120,435	–	4,812
Other liabilities	278,920	121,660	40,288
Amounts due to subsidiaries	1,886	–	488
Subordinated notes issued	1,640,257	–	–
Spot liabilities	<u>18,388,888</u>	<u>330,325</u>	<u>5,193,487</u>
Net on-balance sheet position	<u>2,598,671</u>	<u>299,607</u>	<u>(123,172)</u>
Off-balance sheet position			
Foreign exchange derivative contracts	(1,909,774)	–	112,987
Net aggregate position	<u>688,897</u>	<u>299,607</u>	<u>(10,185)</u>
Credit commitments and other contingent liabilities in foreign currencies	<u>349,052</u>	<u>–</u>	<u>44,950</u>

(iii) *Interest rate risk*

The Group's interest rate positions mainly arise from treasury and commercial banking activities. Interest rate risk arises in both trading portfolios and non-trading portfolios. Interest rate risk primarily results from timing differences in the repricing of interest-bearing assets, liabilities and commitments. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Interest rate risk is managed by Financial Markets within limits approved by the Board, including interest rate gap limits. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by the Asset and Liability Committee.

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The following tables indicate the effective interest rates for the relevant periods and the mismatches of the expected interest repricing dates for interest-bearing assets and liabilities at the balance sheet date. Actual repricing dates may differ from the contractual dates owing to prepayments and the exercise of options.

The Group	Average effective interest rate	2010					
		Total HK\$'000	3 months or less (include overdue) HK\$'000	Over 3	Over 1	Over 5 years HK\$'000	Non- interest bearing HK\$'000
				months to 1 year HK\$'000	year to 5 years HK\$'000		
ASSETS							
Cash and short-term funds	0.64%	2,777,351	1,901,782	–	–	–	875,569
Balances with banks and other financial institutions	0.84%	2,135,669	1,591,496	544,173	–	–	–
Trading securities	0.32%	966,773	65,578	898,092	2,988	–	115
Financial assets designated at fair value through profit or loss	2.54%	406,268	–	–	84,724	–	321,544
Derivative financial instruments	N/A	491,633	–	–	–	–	491,633
Advances to customers less impairment allowances	2.23%	28,860,971	27,600,817	823,707	375,132	20,742	40,573
Other loans and receivables	1.95%	2,802,314	2,301,080	99,974	401,260	–	–
Available-for-sale securities	2.29%	18,555,834	5,208,794	5,556,402	6,090,388	1,480,092	220,158
Held-to-maturity investments	4.91%	2,462,681	–	77,739	910,502	1,474,440	–
Other assets	1.66%	<u>2,320,141</u>	<u>117,171</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>2,202,970</u>
		<u>61,779,635</u>	<u>38,786,718</u>	<u>8,000,087</u>	<u>7,864,994</u>	<u>2,975,274</u>	<u>4,152,562</u>
LIABILITIES							
Deposits and balances of banks	0.29%	3,382,793	3,227,412	–	–	–	155,381
Deposits from customers	0.85%	46,038,161	40,381,695	5,212,889	42,024	–	401,553
Trading liabilities	0.11%	920,695	917,483	–	3,212	–	–
Financial liabilities designated at fair value through profit or loss	0.73%	263,986	–	–	–	263,986	–
Certificates of deposit issued	1.07%	797,951	562,578	6,800	228,573	–	–
Debt securities issued	1.48%	41,401	38,234	3,167	–	–	–
Derivative financial instruments	N/A	577,314	–	–	–	–	577,314
Subordinated notes issued	3.57%	3,137,286	–	1,596,605	–	1,540,681	–
Other liabilities	0.68%	<u>1,525,780</u>	<u>601,445</u>	<u>–</u>	<u>208,092</u>	<u>–</u>	<u>716,243</u>
		<u>56,685,367</u>	<u>45,728,847</u>	<u>6,819,461</u>	<u>481,901</u>	<u>1,804,667</u>	<u>1,850,491</u>
Interest rate sensitivity gap			<u>(6,942,129)</u>	<u>1,180,626</u>	<u>7,383,093</u>	<u>1,170,607</u>	

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Derivative financial instruments are carried at mark-to-market values. Note 21(d) includes further information on the remaining maturity of derivatives, including interest rate swaps, by notional amount.

The Group	Average effective interest rate	2009					Non-interest bearing
		Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Cash and short-term funds	0.72%	5,414,889	3,133,999	-	-	-	2,280,890
Balances with banks and other financial institutions	2.37%	367,677	126,775	240,902	-	-	-
Trading securities	0.27%	105,522	101,404	-	4,016	-	102
Financial assets designated at fair value through profit or loss	5.63%	641,737	-	-	331,624	-	310,113
Derivative financial instruments	N/A	632,010	-	-	-	-	632,010
Advances to customers less impairment allowances	2.60%	28,571,967	27,022,548	852,075	532,172	78,463	86,709
Other loans and receivables	2.04%	3,392,218	2,548,956	368,460	474,802	-	-
Available-for-sale securities	2.67%	17,939,073	3,680,878	3,231,213	9,325,959	1,481,701	219,322
Held-to-maturity investments	6.20%	902,222	-	-	902,222	-	-
Other assets	3.03%	3,011,985	26,867	1,460	-	-	2,983,658
		<u>60,979,300</u>	<u>36,641,427</u>	<u>4,694,110</u>	<u>11,570,795</u>	<u>1,560,164</u>	<u>6,512,804</u>
LIABILITIES							
Deposits and balances of banks	0.77%	2,424,903	2,116,732	50,000	-	-	258,171
Deposits from customers	0.56%	46,602,175	42,253,030	3,779,461	209,365	-	360,319
Trading liabilities	0.48%	14,275	10,000	1,033	3,242	-	-
Financial liabilities designated at fair value through profit or loss	0.63%	201,096	-	-	-	201,096	-
Certificates of deposit issued	0.82%	322,100	308,650	13,450	-	-	-
Debt securities issued	0.25%	268,791	268,791	-	-	-	-
Derivative financial instruments	N/A	651,896	-	-	-	-	651,896
Subordinated notes issued	1.02%	1,640,257	-	-	1,640,257	-	-
Other liabilities	0.90%	3,919,247	958,495	678,111	948,630	-	1,334,011
		<u>56,044,740</u>	<u>45,915,698</u>	<u>4,522,055</u>	<u>2,801,494</u>	<u>201,096</u>	<u>2,604,397</u>
Interest rate sensitivity gap			<u>(9,274,271)</u>	<u>172,055</u>	<u>8,769,301</u>	<u>1,359,068</u>	

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Derivative financial instruments are carried at mark-to-market values. Note 21(d) includes further information on the remaining maturity of derivatives, including interest rate swaps, by notional amount.

The Bank	Average effective interest rate	2010					Non-interest bearing
		Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Cash and short-term funds	0.64%	2,774,901	1,901,782	-	-	-	873,119
Balances with banks and other financial institutions	0.82%	2,058,707	1,514,534	544,173	-	-	-
Trading securities	0.32%	966,658	65,578	898,092	2,988	-	-
Financial assets designated at fair value through profit or loss	2.54%	406,268	-	-	84,724	-	321,544
Derivative financial instruments	N/A	491,633	-	-	-	-	491,633
Advances to customers less impairment allowances	2.18%	28,496,116	27,421,630	715,899	319,218	20,742	18,627
Other loans and receivables	1.95%	2,802,314	2,301,080	99,974	401,260	-	-
Available-for-sale securities	2.29%	18,555,832	5,208,794	5,556,402	6,090,388	1,480,092	220,156
Held-to-maturity investments	4.91%	2,462,681	-	77,739	910,502	1,474,440	-
Amount due from subsidiaries	0.25%	480,947	471,460	-	-	-	9,487
Other assets	1.66%	<u>2,409,784</u>	<u>117,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,292,613</u>
		<u>61,905,841</u>	<u>39,002,029</u>	<u>7,892,279</u>	<u>7,809,080</u>	<u>2,975,274</u>	<u>4,227,179</u>
LIABILITIES							
Deposits and balances of banks	0.29%	3,382,793	3,227,412	-	-	-	155,381
Deposits from customers	0.85%	46,038,161	40,381,695	5,212,889	42,024	-	401,553
Trading liabilities	0.11%	920,695	917,483	-	3,212	-	-
Financial liabilities designated at fair value through profit or loss	0.73%	263,986	-	-	-	263,986	-
Certificates of deposit issued	1.07%	797,951	562,578	6,800	228,573	-	-
Debt securities issued	1.48%	41,401	38,234	3,167	-	-	-
Derivative financial instruments	N/A	577,314	-	-	-	-	577,314
Amounts due to subsidiaries	0.12%	520,548	422,358	-	-	-	98,190
Subordinated notes issued	3.57%	3,137,286	-	1,596,605	-	1,540,681	-
Other liabilities	0.68%	<u>1,488,769</u>	<u>601,445</u>	<u>-</u>	<u>208,092</u>	<u>-</u>	<u>679,232</u>
		<u>57,168,904</u>	<u>46,151,205</u>	<u>6,819,461</u>	<u>481,901</u>	<u>1,804,667</u>	<u>1,911,670</u>
Interest rate sensitivity gap			<u>(7,149,176)</u>	<u>1,072,818</u>	<u>7,327,179</u>	<u>1,170,607</u>	

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Derivative financial instruments are carried at mark-to-market values. Note 21(d) includes further information on the remaining maturity of derivatives, including interest rate swaps, by notional amount.

The Bank	Average effective interest rate	2009					Non- interest bearing
		Total	3 months or less (include overdue)	Over 3 months to 1 year	Over 1 year to 5 years	Over 5 years	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS							
Cash and short-term funds	0.72%	5,413,566	3,133,999	-	-	-	2,279,567
Balances with banks and other financial institutions	2.86%	290,902	50,000	240,902	-	-	-
Trading securities	0.27%	105,420	101,404	-	4,016	-	-
Financial assets designated at fair value through profit or loss	5.63%	641,737	-	-	331,624	-	310,113
Derivative financial instruments	N/A	632,010	-	-	-	-	632,010
Advances to customers less impairment allowances	2.33%	26,947,698	26,309,105	260,908	235,550	78,463	63,672
Other loans and receivables	2.04%	3,392,218	2,548,956	368,460	474,802	-	-
Available-for-sale securities	2.67%	17,939,071	3,680,878	3,231,213	9,325,959	1,481,701	219,320
Held-to-maturity investments	6.20%	902,222	-	-	902,222	-	-
Amount due from subsidiaries	0.15%	2,043,318	2,028,246	-	-	-	15,072
Other assets	3.03%	3,117,784	26,867	1,460	-	-	3,089,457
		<u>61,425,946</u>	<u>37,879,455</u>	<u>4,102,943</u>	<u>11,274,173</u>	<u>1,560,164</u>	<u>6,609,211</u>
LIABILITIES							
Deposits and balances of banks	0.77%	2,424,903	2,116,732	50,000	-	-	258,171
Deposits from customers	0.56%	46,602,175	42,253,030	3,779,461	209,365	-	360,319
Trading liabilities	0.48%	14,275	10,000	1,033	3,242	-	-
Financial liabilities designated at fair value through profit or loss	0.63%	201,096	-	-	-	201,096	-
Certificates of deposit issued	0.82%	322,100	308,650	13,450	-	-	-
Debt securities issued	0.25%	268,791	268,791	-	-	-	-
Derivative financial instruments	N/A	651,896	-	-	-	-	651,896
Amounts due to subsidiaries	0.02%	870,689	794,932	-	-	-	75,757
Subordinated notes issued	1.02%	1,640,257	-	-	1,640,257	-	-
Other liabilities	0.90%	3,881,075	958,495	678,111	948,630	-	1,295,839
		<u>56,877,257</u>	<u>46,710,630</u>	<u>4,522,055</u>	<u>2,801,494</u>	<u>201,096</u>	<u>2,641,982</u>
Interest rate sensitivity gap			<u>(8,831,175)</u>	<u>(419,112)</u>	<u>8,472,679</u>	<u>1,359,068</u>	

Derivative financial instruments are carried at mark-to-market values. Note 21(d) includes further information on the remaining maturity of derivatives, including interest rate swaps, by notional amount.

(c) Liquidity risk management

The purpose of liquidity management is to ensure sufficient cash flows to meet all financial commitments and to capitalize on opportunities for business expansion. This includes the Group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings as they mature, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis by the Funding Centre department under the direction of the Asset and Liability Committee. The Funding Centre department is responsible for ensuring that the Group has adequate liquidity for all operations, ensuring that the funding mix is appropriate so as to avoid maturity mismatches and to prevent price and reinvestment rate risk in case of a maturity gap, and monitoring relevant markets for the adequacy of funding and liquidity.

As part of its liquidity risk management, the Group focuses on a number of components, including maintaining sufficient liquid assets, maintaining diversified sources of liquidity, reserving necessary funding capacity and contingent planning. The Group manages liquidity risk by holding sufficient liquid assets (e.g. cash and short term funds and securities) of appropriate quality to ensure that short term funding requirements are covered within prudential limits. In order to lengthen the duration of the funding, the Bank periodically issues certificates of deposit with different maturities. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material cash outflows in the ordinary course of business. The Group regularly performs stress tests on its liquidity position.

The Group's consolidated average liquidity ratio for the year ended 31 December 2010 was well above the statutory minimum ratio of 25%.

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(i) Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the balance sheet date to the contractual maturity date.

The Group	Total HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	2010		Over 1 year but within 5 years HK\$'000	Over 5 years HK\$'000	Undated or overdue HK\$'000
				Over 1 month but within 3 months HK\$'000	Over 3 months but within 1 year HK\$'000			
ASSETS								
Cash and short-term funds	2,777,351	1,815,403	961,948	-	-	-	-	-
Balances with banks and other financial institutions	2,135,669	-	109,579	1,481,917	544,173	-	-	-
Trading securities	966,773	-	-	65,578	898,092	2,988	-	115
Financial assets designated at fair value through profit or loss	406,268	-	-	-	-	84,724	-	321,544
Derivative financial instruments	491,633	-	-	-	-	-	-	491,633
Advances to customers less impairment allowances	28,860,971	767,013	2,586,154	1,639,363	3,059,731	10,114,694	10,649,837	44,179
Other loans and receivables	2,802,314	-	-	-	1,246,202	1,556,112	-	-
Available-for-sale securities	18,555,834	-	463,979	269,119	5,950,858	9,795,459	1,856,262	220,157
Held-to-maturity investments	2,462,681	-	-	-	-	910,502	1,552,179	-
Other assets	2,320,141	-	400,454	81,719	55,430	1,811	-	1,780,727
	<u>61,779,635</u>	<u>2,582,416</u>	<u>4,522,114</u>	<u>3,537,696</u>	<u>11,754,486</u>	<u>22,466,290</u>	<u>14,058,278</u>	<u>2,858,355</u>
LIABILITIES								
Deposits and balances of banks	3,382,793	155,381	3,141,899	85,513	-	-	-	-
Deposits from customers	46,038,161	14,489,262	18,840,440	7,440,797	5,212,889	49,487	5,286	-
Trading liabilities	920,695	-	917,483	-	-	3,212	-	-
Financial liabilities designated at fair value through profit or loss	263,986	-	-	-	-	-	263,986	-
Certificates of deposit issued	797,951	-	66,610	169,062	306,800	255,479	-	-
Debt securities issued	41,401	-	-	3,110	30,517	7,774	-	-
Derivative financial instruments	577,314	-	-	-	-	-	-	577,314
Subordinated notes issued	3,137,286	-	-	-	-	-	3,137,286	-
Other liabilities	1,525,780	-	546,759	231,490	72,793	208,954	-	465,784
	<u>56,685,367</u>	<u>14,644,643</u>	<u>23,513,191</u>	<u>7,929,972</u>	<u>5,622,999</u>	<u>524,906</u>	<u>3,406,558</u>	<u>1,043,098</u>
Net liquidity gap		<u>12,062,227</u>	<u>18,991,077</u>	<u>4,392,276</u>	<u>(6,131,487)</u>	<u>(21,941,384)</u>	<u>(10,651,720)</u>	

Derivative financial instruments are carried at mark-to-market values. Note 21(d) includes further information on the remaining maturity of derivatives, including interest rate swaps, by notional amount.

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The Group	2010							Undated or overdue HK\$'000
	Total	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Of which:								
Debt securities held*								
- Included in trading securities	966,658	-	-	65,578	898,092	2,988	-	-
- Included in financial assets designated at fair value through profit or loss	406,268	-	-	-	-	84,724	-	321,544
- Included in loans and receivable	2,802,314	-	-	-	1,246,202	1,556,112	-	-
- Included in available-for-sale securities	18,344,932	-	463,979	269,119	5,950,858	9,795,459	1,856,262	9,255
- Included in held-to-maturity investments	2,462,681	-	-	-	-	910,502	1,552,179	-
	<u>24,982,853</u>	<u>-</u>	<u>463,979</u>	<u>334,697</u>	<u>8,095,152</u>	<u>12,349,785</u>	<u>3,408,441</u>	<u>330,799</u>
Certificates of deposit issued								
- Stated at amortised cost	<u>797,951</u>	<u>-</u>	<u>66,610</u>	<u>169,062</u>	<u>306,800</u>	<u>255,479</u>	<u>-</u>	<u>-</u>

* The amount of debt securities held included certificate of deposits held.

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The Group	2009							Undated or overdue HK\$'000
	Total	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
ASSETS								
Cash and short-term funds	5,414,889	2,479,867	2,935,022	-	-	-	-	-
Balances with banks and other financial institutions	367,677	-	-	76,775	240,902	50,000	-	-
Trading securities	105,522	-	15,000	86,404	-	4,016	-	102
Financial assets designated at fair value through profit or loss	641,737	-	-	-	-	331,624	-	310,113
Derivative financial instruments	632,010	-	-	-	-	-	-	632,010
Advances to customers less impairment allowances	28,571,967	791,253	4,250,113	1,503,985	2,748,130	9,552,263	9,524,838	201,385
Other loans and receivables	3,392,218	-	-	-	828,169	2,564,049	-	-
Available-for-sale securities	17,939,073	-	50,804	804,133	3,509,535	11,578,645	1,776,634	219,322
Held-to-maturity investments	902,222	-	-	-	-	902,222	-	-
Other assets	3,011,985	-	1,072,134	26,048	65,006	35,144	-	1,813,653
	<u>60,979,300</u>	<u>3,271,120</u>	<u>8,323,073</u>	<u>2,497,345</u>	<u>7,391,742</u>	<u>25,017,963</u>	<u>11,301,472</u>	<u>3,176,585</u>
LIABILITIES								
Deposits and balances of banks	2,424,903	258,032	1,642,395	474,476	50,000	-	-	-
Deposits from customers	46,602,175	15,282,618	18,295,670	9,025,368	3,779,461	209,364	9,694	-
Trading liabilities	14,275	-	10,000	-	1,033	3,242	-	-
Financial liabilities designated at fair value through profit or loss	201,096	-	-	-	-	-	201,096	-
Certificates of deposit issued	322,100	-	-	8,650	13,450	300,000	-	-
Debt securities issued	268,791	-	52,086	62,938	143,685	-	10,082	-
Derivative financial instruments	651,896	-	-	-	-	-	-	651,896
Subordinated notes issued	1,640,257	-	-	-	-	-	1,640,257	-
Other liabilities	3,919,247	-	1,614,893	47,683	745,628	948,644	-	562,399
	<u>56,044,740</u>	<u>15,540,650</u>	<u>21,615,044</u>	<u>9,619,115</u>	<u>4,733,257</u>	<u>1,461,250</u>	<u>1,861,129</u>	<u>1,214,295</u>
Net liquidity gap		<u>12,269,530</u>	<u>13,291,971</u>	<u>7,121,770</u>	<u>(2,658,485)</u>	<u>(23,556,713)</u>	<u>(9,440,343)</u>	

Derivative financial instruments are carried at mark-to-market values. Note 21(d) includes further information on the remaining maturity of derivatives, including interest rate swaps, by notional amount.

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The Group	Total HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	2009			Over 5 years HK\$'000	Undated or overdue HK\$'000
				Over 1 month but within 3 months HK\$'000	Over 3 months but within 1 year HK\$'000	Over 1 year but within 5 years HK\$'000		
Of which:								
Debt securities held*								
- Included in trading securities	105,420	-	15,000	86,404	-	4,016	-	-
- Included in financial assets designated at fair value through profit or loss	641,737	-	-	-	-	331,624	-	310,113
- Included in loans and receivable	3,392,218	-	-	-	828,169	2,564,049	-	-
- Included in available-for-sale securities	17,728,988	-	50,804	804,133	3,509,535	11,578,645	1,776,634	9,237
- Included in held-to-maturity investments	902,222	-	-	-	-	902,222	-	-
	<u>22,770,585</u>	<u>-</u>	<u>65,804</u>	<u>890,537</u>	<u>4,337,704</u>	<u>15,380,556</u>	<u>1,776,634</u>	<u>319,350</u>
Certificates of deposit issued								
- Stated at amortised cost	<u>322,100</u>	<u>-</u>	<u>-</u>	<u>8,650</u>	<u>13,450</u>	<u>300,000</u>	<u>-</u>	<u>-</u>

* The amount of debt securities held included certificate of deposits held.

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The Bank	Total HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	2010		Over 1 year but within 5 years HK\$'000	Over 5 years HK\$'000	Undated or overdue HK\$'000
				Over 1 month but within 3 months HK\$'000	Over 3 months but within 1 year HK\$'000			
ASSETS								
Cash and short-term funds	2,774,901	1,812,953	961,948	-	-	-	-	-
Balances with banks and other financial institutions	2,058,707	-	109,579	1,404,955	544,173	-	-	-
Trading securities	966,658	-	-	65,578	898,092	2,988	-	-
Financial assets designated at fair value through profit or loss	406,268	-	-	-	-	84,724	-	321,544
Derivative financial instruments	491,633	-	-	-	-	-	-	491,633
Advances to customers less impairment allowances	28,496,116	764,622	2,552,212	1,580,972	2,936,406	10,031,031	10,614,507	16,366
Other loans and receivables	2,802,314	-	-	-	1,246,202	1,556,112	-	-
Available-for-sale securities	18,555,832	-	463,979	269,119	5,950,858	9,795,459	1,856,262	220,155
Held-to-maturity investments	2,462,681	-	-	-	-	910,502	1,552,179	-
Amounts due from subsidiaries	480,947	3,623	233,659	237,876	-	-	-	5,789
Other assets	2,409,784	-	398,619	81,689	55,430	1,157	-	1,872,889
	<u>61,905,841</u>	<u>2,581,198</u>	<u>4,719,996</u>	<u>3,640,189</u>	<u>11,631,161</u>	<u>22,381,973</u>	<u>14,022,948</u>	<u>2,928,376</u>
LIABILITIES								
Deposits and balances of banks	3,382,793	155,381	3,141,899	85,513	-	-	-	-
Deposits from customers	46,038,161	14,489,262	18,840,440	7,440,797	5,212,889	49,487	5,286	-
Trading liabilities	920,695	-	917,483	-	-	3,212	-	-
Financial liabilities designated at fair value through profit or loss	263,986	-	-	-	-	-	263,986	-
Certificates of deposit issued	797,951	-	66,610	169,062	306,800	255,479	-	-
Debt securities issued	41,401	-	-	3,110	30,517	7,774	-	-
Derivative financial instruments	577,314	-	-	-	-	-	-	577,314
Amounts due to subsidiaries	520,548	103,039	245,565	168,086	-	-	-	3,858
Subordinated notes issued	3,137,286	-	-	-	-	-	3,137,286	-
Other liabilities	1,488,769	-	532,471	231,490	72,793	208,954	-	443,061
	<u>57,168,904</u>	<u>14,747,682</u>	<u>23,744,468</u>	<u>8,098,058</u>	<u>5,622,999</u>	<u>524,906</u>	<u>3,406,558</u>	<u>1,024,233</u>
Net liquidity gap		<u>12,166,484</u>	<u>19,024,472</u>	<u>4,457,869</u>	<u>(6,008,162)</u>	<u>(21,857,067)</u>	<u>(10,616,390)</u>	

Derivative financial instruments are carried at mark-to-market values. Note 21(d) includes further information on the remaining maturity of derivatives, including interest rate swaps, by notional amount.

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The Bank	2010							Undated or overdue
	Total	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Of which:								
Debt securities held*								
- Included in trading securities	966,658	-	-	65,578	898,092	2,988	-	-
- Included in financial assets designated at fair value through profit or loss	406,268	-	-	-	-	84,724	-	321,544
- Included in loans and receivable	2,802,314	-	-	-	1,246,202	1,556,112	-	-
- Included in available-for-sale securities	18,344,932	-	463,979	269,119	5,950,858	9,795,459	1,856,262	9,255
- Included in held-to-maturity investments	2,462,681	-	-	-	-	910,502	1,552,179	-
	<u>24,982,853</u>	<u>-</u>	<u>463,979</u>	<u>334,697</u>	<u>8,095,152</u>	<u>12,349,785</u>	<u>3,408,441</u>	<u>330,799</u>
Certificates of deposit issued								
- Stated at amortised cost	<u>797,951</u>	<u>-</u>	<u>66,610</u>	<u>169,062</u>	<u>306,800</u>	<u>255,479</u>	<u>-</u>	<u>-</u>

* The amount of debt securities held included certificate of deposits held.

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The Bank	2009							
	Total	Repayable on demand	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Undated or overdue
ASSETS								
Cash and short-term funds	5,413,566	2,478,544	2,935,022	-	-	-	-	-
Balances with banks and other financial institutions	290,902	-	-	-	240,902	50,000	-	-
Trading securities	105,420	-	15,000	86,404	-	4,016	-	-
Financial assets designated at fair value through profit or loss	641,737	-	-	-	-	331,624	-	310,113
Derivative financial instruments	632,010	-	-	-	-	-	-	632,010
Advances to customers less impairment allowances	26,947,698	782,017	4,127,499	1,277,233	2,114,047	9,177,221	9,375,005	94,676
Other loans and receivables	3,392,218	-	-	-	828,169	2,564,049	-	-
Available-for-sale securities	17,939,071	-	50,804	804,133	3,509,535	11,578,645	1,776,634	219,320
Held-to-maturity investments	902,222	-	-	-	-	902,222	-	-
Amounts due from subsidiaries	2,043,318	13,022	900,322	1,128,371	-	-	-	1,603
Other assets	3,117,784	-	1,042,850	26,048	70,540	30,618	-	1,947,728
	<u>61,425,946</u>	<u>3,273,583</u>	<u>9,071,497</u>	<u>3,322,189</u>	<u>6,763,193</u>	<u>24,638,395</u>	<u>11,151,639</u>	<u>3,205,450</u>
LIABILITIES								
Deposits and balances of banks	2,424,903	258,032	1,642,395	474,476	50,000	-	-	-
Deposits from customers	46,602,175	15,282,618	18,295,670	9,025,368	3,779,461	209,364	9,694	-
Trading liabilities	14,275	-	10,000	-	1,033	3,242	-	-
Financial liabilities designated at fair value through profit or loss	201,096	-	-	-	-	-	201,096	-
Certificates of deposit issued	322,100	-	-	8,650	13,450	300,000	-	-
Debt securities issued	268,791	-	52,086	62,938	143,685	-	10,082	-
Derivative financial instruments	651,896	-	-	-	-	-	-	651,896
Amounts due to subsidiaries	870,689	71,203	779,959	10,039	5,598	-	-	3,890
Subordinated notes issued	1,640,257	-	-	-	-	-	1,640,257	-
Other liabilities	3,881,075	-	1,602,299	47,683	745,628	948,644	-	536,821
	<u>56,877,257</u>	<u>15,611,853</u>	<u>22,382,409</u>	<u>9,629,154</u>	<u>4,738,855</u>	<u>1,461,250</u>	<u>1,861,129</u>	<u>1,192,607</u>
Net liquidity gap		<u>12,338,270</u>	<u>13,310,912</u>	<u>6,306,965</u>	<u>(2,024,338)</u>	<u>(23,177,145)</u>	<u>(9,290,510)</u>	

Derivative financial instruments are carried at mark-to-market values. Note 21(d) includes further information on the remaining maturity of derivatives, including interest rate swaps, by notional amount.

APPENDIX I

FINANCIAL INFORMATION RELATING TO
THE FUBON BANK GROUP

The Bank	Total HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	2009			Over 5 years HK\$'000	Undated or overdue HK\$'000
				Over 1 month but within 3 months HK\$'000	Over 3 months but within 1 year HK\$'000	Over 1 year but within 5 years HK\$'000		
Of which:								
Certificate of deposits held								
Debt securities held*								
- Included in trading securities	105,420	-	15,000	86,404	-	4,016	-	-
- Included in financial assets designated at fair value through profit or loss	641,737	-	-	-	-	331,624	-	310,113
- Included in loans and receivable	3,392,218	-	-	-	828,169	2,564,049	-	-
- Included in available-for-sale securities	17,728,988	-	50,804	804,133	3,509,535	11,578,645	1,776,634	9,237
- Included in held-to-maturity investments	902,222	-	-	-	-	902,222	-	-
	<u>22,770,585</u>	<u>-</u>	<u>65,804</u>	<u>890,537</u>	<u>4,337,704</u>	<u>15,380,556</u>	<u>1,776,634</u>	<u>319,350</u>
Certificates of deposit issued								
- Stated at amortised cost	<u>322,100</u>	<u>-</u>	<u>-</u>	<u>8,650</u>	<u>13,450</u>	<u>300,000</u>	<u>-</u>	<u>-</u>

* The amount of debt securities held included certificate of deposits held.

(ii) Analysis of non-derivative liabilities by contractual maturities

The following contractual cash flow projections of the Group's financial liabilities, and off-balance sheet exposures analysed by the remaining period as at the balance sheet date to the contractual maturity dates. The balances in the tables below will not agree directly to the balances in the consolidated balance sheet as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future interest and coupon payments.

The Group	Total <i>HK\$'000</i>	Repayable on demand <i>HK\$'000</i>	Within 1 month <i>HK\$'000</i>	2010			
				Over 1 month but within 3 months <i>HK\$'000</i>	Over 3 months but within 1 year <i>HK\$'000</i>	Over 1 year but within 5 years <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>
Financial liabilities							
Deposits and balances of banks	3,384,181	155,547	3,142,321	86,313	–	–	–
Deposits from customers	46,144,397	14,489,263	18,870,087	7,470,641	5,257,004	51,890	5,512
Trading liabilities	920,780	–	917,500	–	112	3,168	–
Financial liabilities designated at fair value through profit or loss							
Certificates of deposit issued	808,495	–	67,544	169,313	312,698	258,940	–
Debt securities issued	41,730	–	43	3,215	30,669	7,803	–
Subordinated notes issued	4,080,952	–	1,266	2,757	97,599	386,476	3,592,854
Other liabilities	1,395,574	–	958,191	212,993	12,803	211,587	–
	<u>57,321,061</u>	<u>14,644,810</u>	<u>23,957,498</u>	<u>7,945,232</u>	<u>5,712,507</u>	<u>928,544</u>	<u>4,132,470</u>
Off-balance sheet exposures							
– Contingent liabilities	478,483	–	478,483	–	–	–	–
– Commitments	13,822,251	13,822,251	–	–	–	–	–
	<u>14,300,734</u>	<u>13,822,251</u>	<u>478,483</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Group	Total HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	2009			
				Over 1 month but within 3 months HK\$'000	Over 3 months but within 1 year HK\$'000	Over 1 year but within 5 years HK\$'000	Over 5 years HK\$'000
Financial liabilities							
Deposits and balances of banks	2,433,568	258,171	1,642,877	482,420	50,100	-	-
Deposits from customers	46,680,316	15,282,618	18,313,584	9,052,927	3,806,415	214,986	9,786
Trading liabilities	14,431	-	10,000	-	1,152	3,279	-
Financial liabilities designated at fair value through profit or loss	542,156	-	446	-	1,325	7,091	533,294
Certificates of deposit issued	326,647	-	413	8,850	15,591	301,793	-
Debt securities issued	270,353	-	52,128	63,055	143,943	523	10,704
Subordinated notes issued	1,572,168	-	1,227	2,586	12,096	5,259	1,551,000
Other liabilities	3,784,227	-	2,119,028	9,709	731,673	923,817	-
	<u>55,623,866</u>	<u>15,540,789</u>	<u>22,139,703</u>	<u>9,619,547</u>	<u>4,762,295</u>	<u>1,456,748</u>	<u>2,104,784</u>
Off-balance sheet exposures							
- Contingent liabilities	423,530	-	423,530	-	-	-	-
- Commitments	<u>11,597,793</u>	<u>11,597,793</u>	-	-	-	-	-
	<u>12,021,323</u>	<u>11,597,793</u>	<u>423,530</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(d) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risks arise from the Group's daily operation and fiduciary activities. An appropriate and robust Operational Risk Management Policy and related framework has been developed, based on the HKMA guidelines, to facilitate the timely identification, effective assessment and mitigation of material and relevant risks. Through this framework, the management oversight for risk exposures, especially in the prioritisation and allocation of limited risk mitigating resources, can further be strengthened.

The board of directors, through the Risk Management Committee, is aware of the major aspects of the bank's operational risks as a distinct risk category that should be managed. The Committee performs regular review and approves the operational risk framework, risk profiles, policies and guidelines. The Committee also plays an active role in monitoring the progress of implementation of mitigating measures for risk events identified, including Business Continuity Planning, Key Risk Indicator monitoring and Basel II implementation.

Internal controls, an integral part of a sound operational risk management framework, are maintained by the established departmental operational manuals which provide guidance on the baseline controls to ensure a controlled and sound operating environment. Each new product or service introduced is subject to a rigorous risk review and sign-off process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product or services. Variations of existing products or services are also subject to a similar process. Departments are required to report any risk events and failings promptly through a reporting mechanism, as well as to review their control procedures regularly to ensure compliance of the regulatory and industry requirements.

The Bank's internal audit and compliance departments play an essential role in monitoring and limiting the Group's operational risk. The primary focus of internal audit and compliance is:

- to independently evaluate the adequacy of all internal controls,
- to ensure adherence to the operating guidelines, including regulatory and legal requirements, and
- to pro-actively recommend improvements

In order to ensure total independence, internal audit reports directly to the Audit Committee of the board as well as indirectly to the Chief Executive.

(e) Capital management

The HKMA sets and monitors capital requirements for the Group as a whole. In addition to meeting the regulatory requirements, the Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The principal forms of capital are included in the following balances on the consolidated balance sheet: share capital, share premium, reserves and subordinated notes issued. Capital also includes the collective impairment allowance held in respect of advances to customers and the regulatory reserve.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The process of allocating capital to specific operations and activities is undertaken by the Asset and Liability Committee and is reviewed regularly by the board of directors.

Consistent with industry practice, the Group monitors its capital structure on the basis of its capital adequacy ratio and there have been no material changes in the Group's policy on the management of capital during the year.

The capital adequacy ratios are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the years ended 31 December 2010 and 2009, and were above the minimum required ratio set by the HKMA.

51. IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2010, the directors consider the immediate parent and ultimate controlling party of the Group is Fubon Financial Holding Company Limited, which is incorporated in the Republic of China.

52. ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these financial statements, certain assumptions and estimates have been made by management of the Group. The accuracy of these assumptions and estimates are continuously reviewed by management with reference to actual results, historical experience and other factors, including projection of future cash flows and possible outcomes from future events. Management believes that the assumptions and estimates made are reasonable and supportable.

Note 47 contains information about the assumptions and risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Impairment losses

Advances to customers

Loan portfolios are reviewed periodically to assess whether impairment losses exist. Management makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence of impairment includes observable data that the payment status of borrowers in a group has adversely changed. It may also include observable data of local economic conditions that correlate with defaults on the assets in the group. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of current observable data.

Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

Available-for-sale equity securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value is significant or prolonged is judgmental by nature so profit and loss could be affected by differences in this judgment.

(b) Fair value determination

The Group determines the fair values for the financial assets and liabilities which are carried at fair value based on quoted market prices whenever possible. If such quoted market prices are not available or an active market does not exist, the Group determines the fair values based on internally developed models which make use of market parameters, including interest rate yield curves, historical and/or implied option volatilities, currency rates, prices of the underlying instruments, and the net assets of the obligors. Model assumptions and correlation among these parameters can affect the estimates of the fair values of these financial instruments.

(c) Held-to-maturity investments

The Group classified non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgement, the Group evaluates its intention and ability to hold such investments till maturity.

If the Group fails to hold these investments to maturity other than in certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as available-for-sale.

This would result in held-to-maturity investments being measured at fair value instead of at amortised cost.

(d) Other accounting estimates

Judgement has been exercised in determining the amount which may be payable to customers in respect of complaints or legal claims arising from the sale of investment products and establishing a reserve included in other liabilities. A charge has been recognised in profit or loss representing amounts paid and an estimate of future amounts which could be payable.

53. POST BALANCE SHEET EVENT

On 10 January 2011, the Board of Directors of Fubon Financial unanimously resolved to make a proposal to privatise the ordinary share capital of the Bank and make a voluntary cash offer to acquire all the issued preference shares of the Bank other than those already held by Fubon Financial. Referring to the joint announcement issued on 19 January 2011, the Board of Directors of the Bank put forward to the Scheme Shareholders the Scheme Proposal to privatise the ordinary share capital of the Bank by way of a Scheme of Arrangement under section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), which, if approved and implemented, would result in the withdrawal of listing of the shares on The Stock Exchange of Hong Kong Limited. The preference share offer will be subject to and conditional upon the Scheme of Arrangement becoming effective. A scheme document containing further details of the Scheme Proposal will be despatched to our shareholders and our preference shareholders no later than 4 April 2011.

54. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2010

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and Interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
Revised HKAS 24, Related party disclosures	1 January 2011
Amendments to HKAS 12, Income taxes	1 January 2012
HKFRS 9, Financial instruments	1 January 2013

The Group is in the process of making assessment of the expected impact of these amendments, new standards, new interpretations and additional disclosures in the period of initial application. So far it has concluded that their adoption is unlikely to result in a restatement of the Group's results of operations and financial position except for HKFRS 9, Financial instruments, which may have an impact on the Group's results and financial position arising from changes in the Group's classification and measurement of financial instruments.

III STATEMENT OF INDEBTEDNESS

As at the close of business on 28 February 2011, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, Fubon Bank had the following indebtedness:

- (a) Subordinated notes with carrying value of HK\$3,144 million and debt securities issued with carrying value of HK\$311 million. In addition, borrowings and money market takings from banks and other financial institutions, deposits from customers and certificates of deposits that arose from the normal course of Fubon Bank's banking and deposit taking businesses.
- (b) Direct credit substitutes, transaction-related contingencies, trade-related contingencies and other commitments that mainly arose from the normal course of banking business.

Save as disclosed above, Fubon Bank Group did not have, as at 28 February 2011, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 28 February 2011. The Directors have confirmed that there has been no material change in the Group's indebtedness and contingent liability position since 28 February 2011 up to the Latest Practicable Date.

IV MATERIAL CHANGES

Save as disclosed in section 5 "Litigation" of Appendix II, there are no material changes in the financial or trading position or outlook of the Fubon Bank Group since 31 December 2010, the date to which the last published audited consolidated financial statements of the Fubon Bank Group were made up, and up to the Latest Practicable Date.

1 RESPONSIBILITY STATEMENT

This document includes materials given in compliance with the Takeovers Code for the purpose of providing information with regard to the Scheme Proposal, the Scheme of Arrangement, the Preference Share Offer, the Offeror and the Company.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this document, other than information relating to the Company, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Company) have been arrived at after due and careful consideration and there are no facts not contained in this document, the omission of which would make any statement in this document misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document relating to the Company, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document (other than those expressed by the Offeror) have been arrived at after due and careful consideration and there are no facts not contained in this document, the omission of which would make any statement in this document misleading.

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

2 MARKET PRICES OF THE SHARES

- (a) The lowest and highest closing prices of the Shares as quoted on the Hong Kong Stock Exchange during the period commencing six months before 10 January 2011 up to the Latest Practicable Date were HK\$3.31 per Share on 19 July 2010 and HK\$5.16 per Share on 31 March 2011.

- (b) The table below sets out the closing prices of the Shares on the Hong Kong Stock Exchange on the last trading day of each of the calendar months commencing six months immediately preceding 10 January 2011 up to the Latest Practicable Date:

	<i>HK\$</i>
30 July 2010	3.52
31 August 2010	3.62
30 September 2010	3.91
29 October 2010	3.63
30 November 2010	3.68
31 December 2010	3.57
Last Trading Day (7 January 2011)	3.78
31 January 2011	4.91
28 February 2011	4.93
31 March 2011	5.16
Last Practicable Date (1 April 2011)	5.15

3 DISCLOSURE OF INTERESTS

(a) Interests of the Directors and the chief executives of the Company in the securities of Fubon Bank

As at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company which were required to be notified to the Company and the Hong Kong 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 under such provisions of the SFO) or the Model Code in the Hong Kong Listing Rules, or which were required to be entered on the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required to be disclosed herein pursuant to the Takeovers Code.

(b) Interests of substantial shareholders in the securities of Fubon Bank

As at the Latest Practicable Date, so far as was known to any of the Directors, the following persons had or were deemed to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate % of total issued capital of Shares (Note 1)
Fubon Financial	Beneficial owner	879,120,000	75%

Name of Shareholder	Capacity/Nature of interest	Number of Shares held	Approximate % of total issued capital of Shares (Note 1)
Deutsche Bank Aktiengesellschaft	Beneficial owner	24,091,325 (Note 2)	2.06%
	Persons having a security interest in shares	18,248,000	1.56%
	Custodian/Approved Lending Agent (Note 3)	226,000	0.02%

Notes:

- (1) The percentage is calculated based on the total number of the issued Shares of 1,172,160,000 as at the Latest Practicable Date.
- (2) The interests in 24,091,325 Shares comprise 48,241,325 long positions and 24,150,000 short positions.
- (3) Shares held by Deutsche Bank Aktiengesellschaft as an Approved Lending Agent (ALA) under Section 5(4) of the Securities and Futures Rules.

(c) Interests and dealings in the Shares and the Preference Shares

- (i) As at the Latest Practicable Date, the Offeror was interested in 879,120,000 Shares, representing 75% of the issued Shares. As at the Latest Practicable Date, the Offeror was interested in 1,133,662,994 Preference Shares, representing approximately 96.72% of the issued Preference Shares. Save as aforesaid, none of the Offeror or its directors were interested in any Shares or Preference Shares, any convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares.
- (ii) As at the Latest Practicable Date, none of the persons acting in concert with the Offeror (other than those members of the group of companies of UBS that are conducting exempt principal trader activities and exempt fund manager activities) owned or controlled any Shares or Preference Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares.
- (iii) None of the Offeror, its directors and the concert parties (save for those members of the group of companies of UBS that are conducting exempt principal trader activities or exempt fund manager activities) had dealt for value in any Shares or Preference Shares or any convertible securities,

warrants, options or derivatives in respect of the Shares or Preference Shares during the period commencing six months before 10 January 2011 and ending on the Latest Practicable Date.

- (iv) Save as disclosed in this sub-paragraph (iv) below, no subsidiary of the Company, pension fund of the Fubon Bank Group or advisor of the Company as specified in class (2) of the definition of “associate” in the Takeovers Code (but excluding exempt principal traders) owned or controlled any Shares or Preference Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares as at the Latest Practicable Date or had dealt for value in any Shares or Preference Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares during the period commencing on 10 January 2011 and ending on the Latest Practicable Date;
- The Fubon Bank Group’s retirement scheme, Fubon Bank (Hong Kong) Limited Retirement Scheme (the “**Retirement Scheme**”) has a defined benefits plan for 40% of its full time employees as at the Latest Practicable Date. The Retirement Scheme is administered by an independent trustee, HSBC Institutional Trust Services (Asia) Limited. As at the Latest Practicable Date, the Retirement Scheme’s assets include 1,898,313 Shares with a fair value of HK\$9,776,311.95. HSBC Institutional Trust Services (Asia) Limited had not dealt for value in any Shares or Preference Shares or any convertible securities, warrants, option or derivatives in respect of the Shares or Preference Shares during the period commencing on 10 January 2011 and ending on the Latest Practicable Date.
- (v) No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1) to (4) of the definition of “associate” in the Takeovers Code and no such person owned or controlled any Shares or Preference Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares as at the Latest Practicable Date or had dealt for value in any Shares or Preference Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares during the period commencing on 10 January 2011 and ending on the Latest Practicable Date.
- (vi) As at the Latest Practicable Date, no Director was interested in, owned or controlled any Shares or Preference Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares and no Director had dealt for value in any Shares or Preference Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares during the period commencing six months before 10 January 2011 and ending on the Latest Practicable Date.

(vii) No Shares or Preference Shares or convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares in the Company was as at the Latest Practicable Date managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company and no fund managers (other than exempt fund managers) connected with the Company had dealt for value in any Shares or Preference Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or Preference Shares during the period commencing on 10 January 2011 and ending on the Latest Practicable Date.

(viii) As at the Latest Practicable Date, none of the Company and the Directors had borrowed or lent any Shares or Preference Shares.

(d) Interests and dealings in the shares in the Offeror

As at the Latest Practicable Date, save as disclosed in the table below, neither the Directors nor the Company had any interest in the shares or any convertible securities, warrants, options or derivatives in respect of the shares in the Offeror.

Name of Director	Capacity/Nature of interest	Number of securities in the Offeror held	Approximate % of total issued share capital <i>(Note 1)</i>
Mr. Ming-Hsing (Richard) Tsai	Beneficial owner	Ordinary shares – 257,317,884	3.001%
Mr. Ming-Chung (Daniel) Tsai	Beneficial owner	Ordinary shares – 241,000,810	2.811%
Mr. Pei-Hwa Thomas Liang	Beneficial owner	Ordinary shares – 838,848 Options <i>(Note 2)</i> – 3,220,000	0.0098%
Mr. Michael Ming-Yuen Chang	Beneficial owner	Options <i>(Note 2)</i> – 2,501,000	0%
Mr. James Yip	Beneficial owner	Options <i>(Note 2)</i> – 2,496,000	0%
Mr. Victor Kung	Beneficial owner	Ordinary shares – 232,087 Options <i>(Note 2)</i> – 4,240,000	0.0027%
Mr. David Kuo-Chun Chang	Beneficial owner	Ordinary shares – 787,459 Options <i>(Note 2)</i> – 4,220,000	0.0092%

Notes:

- (1) The percentage is calculated based on the total number of 8,572,989,101 ordinary shares in the Offeror in issue as at the Latest Practicable Date.
- (2) The options are unlisted physically settled options to acquire the number of ordinary shares in the Offeror as stated above.

Save as disclosed in the table below, neither the Directors nor the Company had dealt for value in any such shares, convertible securities, warrants, options or derivatives in respect of the shares in the Offeror during the period commencing six months before 10 January 2011 and ending on the Latest Practicable Date.

Name of Director	Capacity/ Nature of interest	Date of dealing	Number of Securities in the Offeror dealt (+ denotes purchase; - denotes sale)	Price (NT\$)
Ming-Hsing (Richard) TSAI	Beneficial owner	2010.9.21	+10,813,604	(N/A) Note 1
		2010.12.29	+30,000,000	(N/A) Note 2
Ming-Chung (Daniel) TSAI	Beneficial owner	2010.9.21	+11,464,506	(N/A) Note 1
Victor Kung	Beneficial owner	2010.7.15	-10,000	38.6
		2010.07.29	-5,000	39.2
		2010.07.29	-5,000	39.25
		2010.08.02	-5,000	40
		2010.08.02	-5,000	40.05
		2010.08.03	-5,000	40.4
		2010.08.03	-5,000	40.3
		2010.08.04	-5,000	40.75
		2010.08.04	-5,000	40.75
		2010.08.05	-5,000	40.75
		2010.08.09	-5,000	40.7
		2010.08.09	-5,000	40.85
		2010.08.10	-5,000	41.4
		2010.08.10	-5,000	41.5
David Chang	Beneficial owner	2010.09.21	+11,516	(N/A) Note 1
		2011.01.28	-10,000	40.55
Pei-Hwa Thomas Liang (Managing Director)	Beneficial owner	2010.09.21	+37,459	(N/A) Note 1
		2010.08.26	+800,000	23.5 Note 3
		2010.09.21	+1,848	(N/A) Note 1

Notes:

- (1) Stock Dividend
- (2) Gift
- (3) Exercise of share options

(e) Arrangements with the Offeror and its concert parties in respect of the Scheme Proposal and the Preference Share Offer

As at the Latest Practicable Date:

- (i) none of the Offeror, its concert parties and the associates of the Offeror had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any person;
- (ii) there was no agreement or arrangement to which the Offeror is a party which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer;
- (iii) there was no agreement, arrangement or understanding between the Offeror and any other person in relation to the transfer, charge or pledge of the Shares to be issued to the Offeror (or any of its wholly-owned subsidiaries) upon completion of the Scheme Proposal and the Scheme of Arrangement or of the Preferences Shares to be transferred to the Offeror upon completion of the Preference Share Offer;
- (iv) the Offeror has no intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer to any other person, or has no agreement, arrangement or understanding with any third party to do so;
- (v) no person had irrevocably committed themselves to accept or reject the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer; and
- (vi) none of the Offeror and its concert parties, the Company or the Directors had borrowed or lent any Shares or Preference Shares.

(f) Other interests

As at the Latest Practicable Date:

- (i) no benefit (save for statutory compensation required under appropriate law) is or will be paid to any Directors as compensation for loss of office or otherwise in connection with the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer;
- (ii) there are no material contracts entered into by the Offeror in which any Director has a material personal interest;
- (iii) save for the Scheme Proposal, the Scheme of Arrangement and the Preference Share Offer, there was no agreement, arrangement or understanding (including any compensation arrangement) between the

Offeror or any of its concert parties on the one hand and any of the Directors, recent Directors, Shareholders or Preference Shareholders or recent Shareholders or recent Preference Shareholders on the other hand having any connection with or dependence upon or being conditional upon the outcome of the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer or otherwise connected with the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer;

- (iv) save for the Scheme Proposal, the Scheme of Arrangement and the Preference Share Offer, there was no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer or otherwise connected with the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer; and
- (v) Save as disclosed in this sub-paragraph (v) below, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which (i) has been entered into or amended within six months before 10 January 2011; or (ii) is a continuous contract with a notice period of 12 months or more; or (iii) is a fixed term contract with more than 12 months to run irrespective of the notice period:
 - (i) the senior consultant's service contract dated 19 August 2010, the senior representative's service contract dated 19 August 2010 and the consultant's service contract dated 19 August 2010 between Mr. Michael Chang Ming Yuen and Fubon Financial, Fubon Insurance Co. Ltd. and Fubon Bank, respectively, all for a term of one year expiring 31 August 2011 and providing for fixed remuneration in the aggregate amount of HK\$200,000 per month plus a housing allowance of up to HK\$80,000 per month and no variable remuneration; and
 - (ii) the executive director's service contract dated 15 March 2011 between Mr. Dennis Chan Wen-Yueh and the Company for a term of two years expiring 14 March 2013 and providing for fixed remuneration in the amount of HK\$2,100,000 per year with a discretionary bonus payment to be determined by the Board from time to time.

4 INFORMATION REGARDING THE SHARE CAPITAL OF THE COMPANY

- (i) As at the Latest Practicable Date, the authorised share capital and issued share capital of the Company were as follows:

Authorised share capital

Number of shares	Value of shares
1,406,592,000 Shares	HK\$1,406,592,000
1,172,160,000 Preference Shares	US\$119,994,019.20

Issued and fully paid-up share capital

Number of shares	Value of shares
1,172,160,000 Shares	HK\$1,172,160,000
1,172,160,000 Preference Shares	US\$119,994,019.20

- (ii) Each of the Shares ranks pari passu in all respects, including as to dividends, voting rights and capital.
- (iii) Since 31 December 2010 and up to the Latest Practicable Date, the Company has issued no new Shares or Preference Shares.
- (iv) Other than the Shares and the Preference Shares, there are no other options, derivatives, warrants or other securities convertible or exchangeable into Shares or Preference Shares which are issued by the Company as at the Latest Practicable Date.

5 LITIGATION

Following the collapse of Lehman Brothers on 15 September 2008, the HKMA, the SFC and 16 banks, including Fubon Bank (the “**Banks**”), have been working closely to reach a satisfactory outcome for the recovery of collateral in relation to the Lehman Brothers minibonds (“**Minibonds**”) issued by Pacific International Finance Limited (the “**Collateral**”).

On 28 March 2011, the Banks and the receivers for the certain outstanding minibonds (the “**Receivers**”) separately announced a final resolution proposal for Series 10 to 12, 15 to 23 and 25 to 36 of the minibonds (the “**Relevant Series**” or the “**Relevant Minibonds**”). HSBC Bank USA, N.A. is the trustee for the Relevant Minibonds (the “**Trustee**”). The agreement will, upon becoming unconditional, enable investors of the Relevant Minibonds to recover between 70% and 93% of the amount they invested. The level of recovery for each tranche of the Relevant Minibonds is variable, and the actual distribution to each investor will depend on the specific circumstances of the investor.

The agreement is subject to two conditions:

1. the US Bankruptcy Court confirming that its previous orders relating to settlements in respect of claims arising under certain derivatives contracts apply to the Relevant Minibonds; and
2. the passing of extraordinary resolutions for each series of Relevant Minibonds, as voted on by persons who hold beneficial title in the Relevant Minibonds.

As a gesture of goodwill, the Banks have also implemented an ex gratia payment scheme to eligible customers of Relevant Minibonds. The payments to which each eligible customer will be notionally entitled equates to approximately 50% of any shortfall in the

recovery of the amount recovered, but the exact payment amount will be investor-specific. After taking into account the ex gratia payments, the total level of recovery to eligible customers will be in the range of 85% to 96.5% of the principal amount of their investment.

The Banks have previously made available to the Trustee approximately HK\$291 million (equivalent to the amount of commission income they received as distributors of Minibonds) by way of an Expenses Funding Agreement dated 30 October 2009. As part of the final resolution proposal, the Banks will increase the funding available to the Trustee to approximately HK\$662 million to pay for all fees, expenses and other amounts which may be incurred in connection with the recovery of the Collateral of the outstanding Minibonds and the Trustee's role in respect of the Minibonds. Without this funding, the Trustee would have been entitled to retain all or a part of the Collateral to indemnify it (and its agents) for liabilities and expenses arising from the settlement process. Such retention would reduce the amounts available to holders of the Relevant Series.

If this proposal is implemented as set out above, it is expected that there will be a net overall positive financial impact to the financial performance of Fubon Bank. This is due to an updated expected rate of recovery from the Collateral which is higher than the expected rate of recovery reflected in the accounts of Fubon Bank. The effect of this positive financial impact will to some extent be reduced because of the drawdowns that may be made under the funding arrangements described above.

If the payment obligations under the funding arrangements described above are fully utilised in the next six years, it is estimated that there would be an overall positive financial impact to the financial performance of Fubon Bank from the proposal of around HK\$4 million over the next six years. If, on the other hand, none of the contingent obligations under the funding arrangements described above is drawn down and utilised during the next six years, the overall positive financial impact to the financial performance over the next six years will increase to around HK\$30 million. The actual overall positive financial impact to Fubon Bank is likely to be between these two amounts.

Save as set out in this paragraph 5 above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the directors to be pending or threatened by or against the Company or any of its subsidiaries.

6 MATERIAL CONTRACTS

No material contracts other than contracts entered into in the ordinary course of business carried on or intended to be carried on by the Fubon Bank Group had been entered into by any member of the Fubon Bank Group within two years preceding 10 January 2011 and up to the Latest Practicable Date.

7 EXPERTS

The following are the qualifications of each of the experts who have been named in this document or provided their report or advice which are contained in this document:

Name	Qualification
UBS AG, Hong Kong Branch	registered institution under the SFO licensed to conduct 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 as defined under the SFO
CLSA Equity Capital Markets Limited	licensed to conduct Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

8 CONSENT

UBS and the Independent Financial Adviser have given and have not withdrawn their respective written consents to the issue of this document with the inclusion in this document of the text of their respective letters, reports or opinions, as the case may be, and references to their names in the form and context in which they respectively appear.

9 GENERAL

- (a) The registered office of the Company is situate at Fubon Bank Building, 38 Des Voeux Road Central, Hong Kong.
- (b) The registered office of the Offeror is situate at 237 Section 1 Chien Kuo S Road, Taipei, Taiwan. The directors of the Offeror are Mr. Ming-Chung (Daniel) Tsai (Chairman), Mr. Ming-Hsing (Richard) Tsai (Vice-Chairman), Mr. Dah-Jan Chiou, Mr. Yeh-Shin Chen, Mr. Tsan-Ming Shih, Mr. Victor Kung, Mr. Hong-Chang Chang, Mr. Nelson Chang, Mr. Timothy Ting-yu Ting, Mr. Kok-Choo Chen, Mr. Peng-Yuan Cheng and Mr. Jerry Harn.
- (c) The addresses of Mr. Ming-Hsing (Richard) Tsai and Mr. Ming-Chung (Daniel) Tsai are No. 31, Alley 12, Lane 118, Section 3, Jen-Ai Road, Taipei, Taiwan, ROC and No. 128, Section 3, Jen-Ai Road, Taipei, Taiwan 106, ROC, respectively.
- (d) The registered office in Hong Kong of UBS is situate at 52/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (e) The registered office of the Independent Financial Adviser is situate at 18/F, One Pacific Place, 88 Queensway, Hong Kong.

- (f) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited which is situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (g) In case of inconsistency, the English language text of this document and the accompanying forms of proxy shall prevail over the Chinese language text.
- (h) All time and dates references contained in this document refer to Hong Kong time and dates.

10 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) the registered office of the Company at Fubon Bank Building, 38 Des Voeux Road Central, Hong Kong; (ii) the website of the Company at www.fubonbank.com.hk; and (iii) the website of SFC at www.sfc.hk from the date when this document is published until the Closing Date or the date on which the Scheme of Arrangement and the Preference Share Offer are withdrawn or lapse, whichever is the earlier:

- (a) the memorandum and articles of association of the Company;
- (b) the articles of incorporation of the Offeror;
- (c) the annual report containing the audited consolidated financial statements of the Company for each of the two years ended 31 December 2009 and 2010;
- (d) the audited consolidated financial statements of the Offeror for each of the two years ended 31 December 2008 and 2009;
- (e) the letter from the board of directors of the Company, the text of which is set out on pages 15 to 25 of this document;
- (f) the letter from UBS, the text of which is set out on pages 26 to 35 of this document;
- (g) the letter from the Independent Board Committee, the text of which is set out on pages 36 to 37 of this document;
- (h) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 38 to 66 of this document;
- (i) the written consents referred to in section 8 above headed "Consent" in this Appendix II; and
- (j) the service contracts referred to in section 3(f)(v) headed "Disclosure of Interests – Other Interests" in this Appendix II.

SCHEME OF ARRANGEMENT

HCMP No. 300 of 2011

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 300 OF 2011**

**IN THE MATTER OF
FUBON BANK (HONG KONG) LIMITED
富邦銀行(香港)有限公司**

AND

**IN THE MATTER OF
THE COMPANIES ORDINANCE,
CHAPTER 32 OF THE LAWS OF THE HONG KONG SPECIAL ADMINISTRATIVE
REGION**

**SCHEME OF ARRANGEMENT
(Under Section 166 of the Companies Ordinance
Chapter 32 of the Laws of Hong Kong Special Administrative Region)
between
Fubon Bank (Hong Kong) Limited
富邦銀行(香港)有限公司
and
the holders of Scheme Share
(as hereinafter defined)**

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the meanings respectively set opposite them:

acting in concert	has the meaning ascribed to it under the Takeovers Code
Companies Ordinance	means the Companies Ordinance, Chapter 32 of the Laws of Hong Kong

SCHEME OF ARRANGEMENT

Company	means Fubon Bank (Hong Kong) Limited (富邦銀行(香港)有限公司), a limited company incorporated in Hong Kong whose Shares are listed on the Stock Exchange
Composite Document	means the document dated 4 April 2011 issued jointly by the Company and the Offeror, which includes this Scheme of Arrangement
Effective Date	means the date on which this Scheme of Arrangement becomes effective in accordance with paragraph 5 of this Scheme of Arrangement
High Court	means the High Court of Hong Kong
HK\$	means Hong Kong dollars, the lawful currency of Hong Kong
Hong Kong	means the Hong Kong Special Administrative Region of the People's Republic of China
Latest Practicable Date	means 1 April 2011, being the latest practicable date prior to the printing of the Composite Document for ascertaining certain information contained therein
Minority Shareholders	means the Shareholders other than the Offeror and parties acting in concert with it
New Shares	means the new Shares to be issued to the Offeror pursuant to this Scheme of Arrangement, the number of which is equal to the number of the Scheme Shares cancelled
Offeror	means Fubon Financial Holding Co., Ltd., a limited company incorporated in Taiwan the shares of which are listed on the Taiwan Stock Exchange (stock number: 2881)
Preference Shares	means preference shares of US\$0.10237 each in the capital of the Company
Record Time	means 4:00 p.m. (Hong Kong time) on the trading day immediately preceding the Effective Date, being the record time for determining entitlements of the Scheme Shareholders under this Scheme of Arrangement

SCHEME OF ARRANGEMENT

Register	means the register of members of the Company
Scheme of Arrangement	means this scheme of arrangement under Section 166 of the Companies Ordinance (with or subject to any modification thereto or condition approved or imposed by the High Court) between the Company and the Scheme Shareholders involving, inter alia, the cancellation of all the Scheme Shares and the issue of the New Shares to the Offeror
Scheme Share(s)	means the Share(s) in issue at the Record Time, other than those beneficially owned by the Offeror
Scheme Shareholders	means the registered holders of the Scheme Shares
Share(s)	means ordinary share(s) of HK\$1.00 each in the capital of the Company
Shareholder(s)	means the registered holder(s) of the Shares
Stock Exchange	means The Stock Exchange of Hong Kong Limited
Takeovers Code	means the Hong Kong Code on Takeovers and Mergers

- (B) As at the Latest Practicable Date, the authorised share capital of the Company is HK\$1,406,592,000 divided into 1,406,592,000 Shares of par value HK\$1.00 each and US\$119,994,019.20 divided into 1,172,160,000 Preference Shares of US\$0.10237 each, and the issued share capital of the Company is HK\$1,172,160,000 divided into 1,172,160,000 Shares and US\$119,994,019.20 divided into 1,172,160,000 Preference Shares.
- (C) On the Latest Practicable Date, the Offeror was interested in 879,120,000 Shares, representing 75% of the issued Shares. Such Shares will not form part of the Scheme Shares and will not be cancelled upon the Scheme of Arrangement becoming effective. The Offeror has undertaken that in relation to such Shares in which it is beneficially interested, each of such Shares will remain so beneficially owned until the date on which this Scheme of Arrangement becomes effective, is withdrawn or lapses.
- (D) In consideration of the cancellation and extinguishment of the Scheme Shares on the Effective Date, all Scheme Shareholders as appearing in the Register at the Record Time shall be entitled to receive HK\$5.20 in cash for every Scheme Share cancelled.

SCHEME OF ARRANGEMENT

- (E) The Offeror has agreed to appear by Counsel at the hearing of the petition for the High Court's sanction of this Scheme of Arrangement and to undertake to the High Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme of Arrangement.

- (F) The primary purpose of this Scheme of Arrangement is that on the Effective Date, all the Scheme Shares shall be cancelled and extinguished, the New Shares be created and issued to the Offeror, and that the Shares of the Company will become wholly-owned by the Offeror.

SCHEME OF ARRANGEMENT

THE SCHEME OF ARRANGEMENT PART I CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

1. On the Effective Date:
 - (a) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (b) subject to and forthwith upon the reduction of capital referred to in sub-paragraph (a) above taking effect, the authorised share capital of the Company shall be increased to its former amount of HK\$1,172.2 million by the creation of such number of New Shares as is equal to the number of the Scheme Shares cancelled; and
 - (c) the Company shall apply the credit arising in its books of account as a result of the reduction of capital referred to in sub-paragraph (a) above in paying up in full at par all the New Shares as created under sub-paragraph (b) above which shall be allotted and issued to the Offeror, credited as fully paid.

PART II CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES

2. In consideration of the cancellation and extinguishment of the Scheme Shares pursuant to paragraph 1(a) of this Scheme of Arrangement, the Offeror will pay or cause to be paid to each Scheme Shareholder as appearing in the Register at the Record Time, HK\$5.20 for every Scheme Share cancelled.

PART III GENERAL

3. (a) Not later than ten days after the Effective Date, the Offeror shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register at the Record Time) cheques in respect of the sums payable to such Scheme Shareholders pursuant to paragraph 2 of this Scheme of Arrangement.
- (b) Unless indicated otherwise in writing before the Effective Date to the share registrar of the Company in Hong Kong (being Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong), all such cheques shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to the persons entitled thereto:
 - (i) in the case of sole holders, to the respective registered address of such holders as appearing in the Register as at the Record Time; and

SCHEME OF ARRANGEMENT

- (ii) in the case of joint holders, to the registered address of that one of the joint holders whose name then stands first in the Register in respect of the relevant joint holding.

- (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of paragraph 3(b) of this Scheme of Arrangement, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the moneys represented thereby.

- (d) All cheques shall be posted at the risk of the addressees and once posted, none of the Company, the Offeror nor any of their respective officers or agents shall be liable for any loss or delay in transmission.

- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 3(b) of this Scheme of Arrangement, the Offeror shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Company. The Offeror shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments therefrom of the sums payable pursuant to paragraph 2 of this Scheme of Arrangement, together with interest thereon, to persons who satisfy the Offeror that they are respectively entitled thereto, provided that the cheques referred to in paragraph 3(b) of this Scheme of Arrangement of which they are payees have not been cashed. The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Offeror to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

- (f) On the expiry of six years from the Effective Date, the Offeror (or any successor company thereto) shall be released from any further obligations to make any payments under this Scheme of Arrangement and the Offeror shall thereafter retain the balance (if any) of the sums standing to the credit of the account referred to in paragraph 3(e) of this Scheme of Arrangement, including accrued interest (if any) subject, if applicable, to the deduction of interest or any withholding or other tax or any other deductions required by law and subject also to the deduction of any expenses.

- (g) The preceding sub-paragraphs of this paragraph 3 shall take effect subject to any prohibition or condition imposed by law.

SCHEME OF ARRANGEMENT

4. As from and including the Effective Date:
 - (a) all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;
 - (b) all instruments of transfer validly subsisting at the Record Time in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and
 - (c) all mandates or other instructions to the Company in force at the Record Time in relation to any of the Scheme Shares shall cease to be valid as effective mandates or instructions.
5. This Scheme of Arrangement shall become effective as soon as an office copy of the order of the High Court sanctioning this Scheme of Arrangement and confirming, under Section 60 of the Companies Ordinance, the reduction of capital provided for by this Scheme of Arrangement, together with a minute relating to the reduction of capital of the Company containing the particulars required by Section 61 of the Companies Ordinance, shall have been registered by the Registrar of Companies appointed under the Companies Ordinance.
6. Unless this Scheme of Arrangement shall have become effective on or before 30 September 2011 (or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may direct), this Scheme of Arrangement shall lapse.
7. The Company and the Offeror may jointly consent for and on behalf of all parties concerned to any modification(s) of or addition(s) to this Scheme of Arrangement or to any condition(s) which the High Court may see fit to approve or impose without any further court meeting to be held therefor.
8. Irrespective of whether this Scheme of Arrangement will become effective, the Company will bear its own expenses incurred in connection with this Scheme of Arrangement.

Dated 4 April 2011

NOTICE OF COURT MEETING

**IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
MISCELLANEOUS PROCEEDINGS NO. 300 OF 2011**

**IN THE MATTER
OF
FUBON BANK (HONG KONG) LIMITED
富邦銀行(香港)有限公司**

AND

**IN THE MATTER
OF
THE COMPANIES ORDINANCE,
CHAPTER 32 OF THE LAWS OF
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

**SCHEME OF ARRANGEMENT
Under Section 166 of the Companies Ordinance
Chapter 32 of the Laws of Hong Kong Special Administrative Region**

NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an order dated 18 March 2011 (the “**Order**”) made in the above matters, the High Court of the Hong Kong Special Administrative Region (the “**High Court**”) has directed a meeting (the “**Meeting**”) to be convened of the Scheme Shareholders (as defined in the scheme of arrangement hereinafter mentioned) for the purposes of considering and, if thought fit, approving, with or without modification, a scheme of arrangement (the “**Scheme**”) proposed to be made between Fubon Bank (Hong Kong) Limited (the “**Company**”) and the registered holders of the Scheme Shares (as defined in the Scheme), and that the Meeting will be held at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 29 April 2011 at 10:00 a.m. at which place and time all Scheme Shareholders (as defined in the Scheme) are requested to attend.

A copy of the Scheme and a copy of an explanatory statement (the “**Explanatory Statement**”) explaining the effect of the Scheme, required to be furnished pursuant to Section 166A of the above mentioned Ordinance, are incorporated in the composite document of which this Notice forms part.

In compliance with the Takeovers Code (as defined in the Scheme), Shares held by parties acting in concert (as defined in the Scheme) to the Offeror (as defined in the Scheme) may not be voted at the Meeting and, hence, only Shares held by Minority Shareholders (as defined in the Scheme) are eligible for voting thereat.

NOTICE OF COURT MEETING

The above-mentioned Minority Shareholders may vote in person at the Meeting or they may appoint not more than two persons, whether a member of the Company or not, as their proxy or proxies to attend and, on a poll, vote in their stead. A pink form of proxy for use at the Meeting is enclosed with the composite document of which this Notice forms part.

In the case of joint holders of a share of the Company, the vote of the most senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and, for this purpose, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the share.

It is requested that forms appointing proxies, together with the letter or power of attorney under which it is signed or a notarially certified copy thereof (in the case of a corporation either under its common seal or under the hand of an attorney or a duly authorised officer on its behalf and to the satisfaction of the directors of the Company) if any, be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the appointed time for the holding of the Meeting or the adjourned meetings. Forms of proxy may also be handed to the chairman of the Meeting at the Meeting if not so lodged. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company's share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 24 hours before, or by the company secretary of the Company or the chairman of the Meeting on the day and at the place, but before the commencement, of the Meeting or the adjourned meetings. Completion and return of the form of proxy will not preclude a Scheme Shareholder from attending the Meeting or the adjourned meetings and voting in person if he/she so wishes. In the event that a Scheme Shareholder attends and votes at the Meeting or the adjourned meetings after having lodged his/her form of proxy, his/her form of proxy will be revoked by operation of law.

For the purpose of determining the entitlement to attend and vote at the Meeting, the register of members of the Company will be closed from Tuesday, 26 April 2011 to Friday, 29 April 2011 (both dates inclusive) and during such period, no transfer of Shares will be effected.

By the Order, the High Court has appointed Pei-Hwa Thomas Liang, or, failing him, Robert James Kenrick to act as chairman of the Meeting and has directed the chairman of the Meeting to report the outcome thereof to the High Court.

NOTICE OF COURT MEETING

The Scheme will be subject to the subsequent approval of the High Court as set out in the Explanatory Statement contained in the composite document of which this Notice forms part.

Dated the 4th day of April 2011.

Slaughter and May

47th Floor
Jardine House
One Connaught Place
Hong Kong

Solicitors for Fubon Bank (Hong Kong) Limited

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

NOTICE OF EXTRAORDINARY GENERAL MEETING



FUBON BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “**Meeting**”) of Fubon Bank (Hong Kong) Limited (the “**Company**”) will be held at Harcourt Room, Lower Lobby, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Friday, 29 April 2011 at 10:30 a.m. (or so soon thereafter as the Court Meeting (as defined in the scheme of arrangement hereinafter mentioned) convened for the same day and place shall have concluded or adjourned), for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution which will be proposed as a Special Resolution:

SPECIAL RESOLUTION

“THAT:

- (A) the proposed scheme of arrangement (the “**Scheme**”) between the Company and registered holders of the Scheme Shares (as defined in the Scheme) in the form which has been produced to this meeting and for the purposes of identification signed by the chairman of this meeting, or in such other form and on such terms and conditions as may be approved by the High Court of the Hong Kong Special Administrative Region (the “**High Court**”), be and is hereby approved;
- (B) for the purposes of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
 - (i) the authorised and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
 - (ii) subject to and forthwith upon the said reduction of capital taking effect, the authorised share capital of the Company shall be increased to its former amount by the creation of such number of New Shares (as defined in the Scheme) as is equal to the number of Scheme Shares cancelled; and
 - (iii) the Company shall apply the credit arising in its books of account as a result of the said reduction of capital in paying up the New Shares referred to in paragraph (ii) above in full at par and those New Shares shall be allotted and issued, credited as fully paid, to Fubon Financial Holding Co., Ltd. (“**Fubon Financial**”), and the directors of the Company be and are hereby unconditionally authorised to allot and issue the same accordingly;

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- (C) the directors of the Company be and are hereby authorised to apply to The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for the withdrawal of the listing of the Company’s shares on the Stock Exchange, subject to the Scheme taking effect; and
- (D) the directors of the Company be and are hereby authorised to do all other acts and things considered by them to be necessary or desirable in connection with the implementation of the Scheme and the reduction of capital, including (without limitation) the giving, on behalf of the Company, of consent to any modifications of, or additions to, the Scheme, which the High Court may see fit to impose and to do all other acts and things as considered by them to be necessary or desirable in connection with the implementation of the Scheme and in relation to the Scheme Proposal (as defined in the composite document of which the notice of this resolution forms part) as a whole.”

By Order of the Board
FUBON BANK (HONG KONG) LIMITED
Pei-Hwa Thomas Liang
Managing Director

Dated the 4th day of April 2011

Notes:

- (i) A yellow form of proxy for use at the Meeting is enclosed with the composite document.
- (ii) A member entitled to attend and vote at the Meeting may appoint a proxy to attend and vote in his or her place. The number of proxies so appointed shall not exceed two. A proxy need not be a member of the Company, but must attend the Meeting in person to represent him/her.
- (iii) In order to be valid, the yellow form of proxy, together with the letter or power of attorney under which it is signed or a certified copy thereof (in the case of a corporation, either under its common seal or under the hand of an attorney or a duly authorised officer on its behalf and to the satisfaction of the directors of the Company) if any, must be lodged with the Company’s share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not less than 48 hours before the appointed time for the holding of the Meeting or the adjourned meetings or be handed to the chairman of the Meeting at the Meeting if not so lodged. A vote cast by proxy shall not be invalidated by the revocation of the appointment of the proxy or of the authority under which the appointment was made unless notice in writing of such revocation shall have been received by the Company’s share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 24 hours before, or by the company secretary of the Company or the chairman of the Meeting on the day and at the place, but before the commencement, of the Meeting or the adjourned meetings. Completion and return of the yellow form of proxy will not preclude a member from attending the Meeting or the adjourned meetings and voting in person if he/she so wishes. In the event that a member attends and votes at the Meeting or the adjourned meetings after having lodged his/her form of proxy, his/her form of proxy will be revoked by operation of law.
- (iv) In the case of joint holders of a share, the vote of the most senior holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the share.

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- (v) The register of members of the Company will be closed from the 26th day of April, 2011 to the 29th day of April, 2011 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to ascertain shareholders' rights for the purpose of attending and voting at the Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on the 21st day of April, 2011.
- (vi) Documents set out in Appendix II to the Composite Document (as defined in the Scheme) are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) the registered office of the Company at Fubon Bank Building, 38 Des Voeux Road Central, Hong Kong; (ii) the website of the Company at www.fubonbank.com.hk; and (iii) the website of SFC at www.sfc.hk from the date when the Composite Document is published until the date on which the Scheme is withdrawn or lapses, whichever is the earlier.

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