

*If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.*

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**Base Listing Document relating to  
Structured Products  
to be issued by**



**China Merchants Securities (HK) Co., Limited**  
*(incorporated in Hong Kong with limited liability)*

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This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and is published for the purpose of giving information with regard to us and our warrants (the “**Warrants**”) and other structured products (together, the “**Structured Products**”) to be listed on the Stock Exchange from time to time. This document may be updated and/or amended from time to time by way of addenda. You must ask us if any addenda to this document have been issued.

**We accept full responsibility for the accuracy of the information contained in this document together with such supplemental listing document (each as supplemented and updated by any addendum to be issued from time to time) (together, the “Listing Documents”) and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.**

**These are Structured Products involving derivatives. You should not invest in the Structured Products unless you fully understand and are willing to assume the risks associated with them.**

Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute our general, unsecured and contractual obligations and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon our creditworthiness and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index.

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## IMPORTANT INFORMATION

**You should carefully study the risk factors set out in this document and the Listing Documents**

### **What is this document about?**

This document is for information purposes only and does not constitute an offer, an advertisement or invitation to the public to subscribe for or to acquire any Structured Products.

### **What documents should you read before investing in the Structured Products?**

A supplemental listing document will be issued on the issue date of each series of Structured Products which will set out the detailed commercial terms of the relevant series. You must read this document (including any addendum to this document to be issued from time to time) together with such supplemental listing document (including any addendum to such supplemental listing document to be issued from time to time) before investing in any Structured Products. You should carefully study the risk factors set out in the Listing Documents.

### **The Structured Products are not rated.**

### **Are we regulated by any bodies referred to in Rule 15A.13(2) or (3) of the Listing Rules?**

We are regulated by the Securities and Futures Commission (“SFC”) for the conduct of the business of dealing in securities in Hong Kong.

### **Are we subject to any litigation?**

Save as disclosed in this document, we and our subsidiaries (“the Group”) are not aware of any litigation or claims of material importance pending or threatened against us or them.

### **Authorisation for the issue of the Structured Products**

The issue of the Structured Products was authorised by our board of directors on 14 February 2011.

### **Has our financial position changed since 30 April 2011?**

Save as disclosed in this document, there has been no material adverse change in our financial or trading position since 30 April 2011.

### **Do you need to pay any transaction cost?**

The Stock Exchange charges a trading fee of 0.005 per cent. and the SFC charges a transaction levy of 0.003 per cent. in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended.

### **Do you need to pay any tax?**

No tax is payable in Hong Kong by way of withholding or otherwise in respect of:

- (a) dividends of any company which has issued the underlying shares;
- (b) distributions of any trust which has issued the underlying units; or
- (c) any capital gains arising on the sale of the underlying assets or Structured Products,

except that Hong Kong profits tax may be chargeable on any such gains in the case of certain persons carrying on a trade, profession or business in Hong Kong.

You do not need to pay any stamp duty in respect of purely cash settled Structured Products.

### **Placing, sale and grey market dealings**

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction (other than Hong Kong) where action for the purpose is required. No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us.

**Where can you inspect the relevant documents?**

The following documents are available for inspection during usual business hours on any weekday (except public holidays) at the office of our legal advisers, Mallesons Stephen Jaques at 13/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong:

- (a) our latest audited financial statements and any interim or quarterly financial statements;
- (b) the consent letter(s) of our auditor, Deloitte Touche Tohmatsu (the "Auditor");
- (c) this document and any addendum to this document;
- (d) the supplemental listing document as long as the relevant series of Structured Products is listed on the Stock Exchange; and
- (e) the instrument executed by us by way of deed poll dated 2 February 2012.

Requests for photocopies of the above documents will be subject to a reasonable fee which reflects the costs of making such copies.

The Listing Documents are also available on the website of the Stock Exchange at <http://www.hkex.com.hk/eng/dwrc/search/listsearch.asp>.

各上市文件亦可於聯交所網站  
([http://www.hkex.com.hk/chi/dwrc/search/listsearch\\_c.asp](http://www.hkex.com.hk/chi/dwrc/search/listsearch_c.asp))  
瀏覽。

**Has the Auditor consented to the inclusion of its reports in this document?**

As at the date of this document, the Auditor has given and has not withdrawn its written consent to the inclusion of its reports dated 28 April 2011 and 23 September 2011 in this document and/or the references to its name in the Listing Documents, in the form and context in which it is included. Its reports were not prepared for incorporation into this document.

The Auditor does not hold our shares or shares in our subsidiaries, nor does it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

**How can you get further information about us?**

You may visit our website at [www.newone.com.hk](http://www.newone.com.hk) to obtain further information about us.

*You must note that the information on our website will be of a general nature and cannot be relied upon as accurate and/or correct and will not have been prepared exclusively for the purposes of any particular financial instrument issued by us, including the Structured Products.*

**Authorised representatives**

Shum Wai Bill Patrick and Chow Fung Yee, both of 48/F, One Exchange Square, Central, Hong Kong, are our authorised representatives and are authorised to accept services on our behalf in Hong Kong.

**Governing law of the Structured Products**

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of Hong Kong.

**The Listing Documents are not the sole basis for making an investment decision**

The Listing Documents do not take into account your investment objectives, financial situation or particular needs. Nothing in the Listing Documents should be construed as a recommendation by us or our affiliates to invest in the Structured Products or the underlying asset of the Structured Products.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us.

The Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the merits of investing in any Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

## **Capitalised terms**

Unless otherwise specified, capitalised terms used in this document have the meanings set out in the General Conditions set out in Appendix 1 and the Product Conditions applicable to the relevant series of Structured Products set out in Appendix 2 respectively (together, the “**Conditions**”).

## OVERVIEW OF WARRANTS

### What is a derivative warrant?

A derivative warrant linked to a share, an unit, an index or other assets (each an “**Underlying Asset**”) is an instrument which gives the holder a right to “buy” or “sell” an Underlying Asset at, or derives its value by reference to, a pre-set price/level called the Exercise Price/Strike Level on the Expiry Date. It usually costs a fraction of the value of the Underlying Asset.

A derivative warrant may provide leveraged return to you (but conversely, it could also magnify your losses).

### How and when can you get back your investment?

Our Warrants are European style warrants. This means they will be automatically exercised on the Expiry Date, entitling you to a cash amount called the “**Cash Settlement Amount**” (if positive) according to the applicable Conditions.

You will receive the Cash Settlement Amount (if any) less any Exercise Expenses upon settlement at expiry. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable to you upon expiry.

### How do our Warrants work?

The potential payoff upon expiry of the Warrants is calculated by us by reference to the difference between:

- (a) for a Warrant linked to a security, the Exercise Price and the Average Price; and
- (b) for a Warrant linked to an index, the Strike Level and the Closing Level.

### *Call Warrants*

A call Warrant is suitable to you if you hold a bullish view on the price/level of the Underlying Asset during the term of that call Warrant.

A call Warrant will be exercised at expiry if the Average Price/Closing Level is greater than Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level exceeds the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry. If the Average Price/Closing Level is at or below the Exercise Price/Strike Level (as the case may be), you will lose all your investment.

### *Put Warrants*

A put Warrant is suitable to you if you hold a bearish view on the price/level of the Underlying Asset during the term of that put Warrant.

A put Warrant will be exercised at expiry if the Average Price/Closing Level is below the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level is below the Exercise Price/Strike level (as the case may be), the higher the payoff upon expiry. If the Exercise Price/Strike Level is at or below the Average Price/Closing Level (as the case may be), you will lose all your investment.

### Where can you find the Product Conditions applicable to our Warrants?

You should review the Product Conditions applicable to each type of the Warrants before your investment.

The Product Conditions applicable to each type of our Warrants are set out in Parts A to C of Appendix 2 (as may be supplemented by any addendum or the relevant supplemental listing document).

### What are the factors determining the price of a derivative warrant?

The price of a Warrant generally depends on the prevailing price/level of the Underlying Asset. However, throughout the term of a Warrant, its price/level will be influenced by one or more of the following factors, including:

- (a) the Exercise Price or Strike Level applicable to that Warrant;
- (b) the volatility of the price/level of the Underlying Asset (being a measure of the fluctuation in the price/level of the Underlying Asset);
- (c) the time remaining to expiry — a warrant is generally more valuable the longer the remaining life of the warrants;
- (d) interest rates;
- (e) expected dividend payments or other distributions (if any) on the Underlying Asset or on any components comprising the underlying index;

- (f) the supply and demand for the Warrant;  
and/or
- (g) our creditworthiness.

**What is your maximum loss?**

Your maximum loss in our Warrants will be limited to your investment amount plus any transaction costs.

**How can you get information about the Warrants after issue?**

You may visit the Stock Exchange's website at <http://www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm> to obtain further information on derivative warrants or any notice given by us or the Stock Exchange in relation to our Warrants.

## INFORMATION OF THE ISSUER

### Place of incorporation

The Issuer was incorporated in Hong Kong with limited liability on 4 October 1986.

### Profile and activities

The Issuer is a wholly-owned subsidiary of China Merchants Securities Co. Ltd., a member of the China Merchants Group and one of the leading investment banks in China listed on the Shanghai Stock Exchange (stock code: 600999).

The Issuer has been running all its businesses in adherence to the group's culture — Integrity, Prudence, Servicing, and Innovation, so that it could ride out all international and regional financial crises over the years and still have a solid development. The Issuer has a team of quality and well experienced staff to provide tailor-made and high quality financial services to its clients. While the Issuer is offering a wealth of expertise to meet its clients' needs, it is active in expanding its scope of services, strengthening its marketing force and enhancing its ability to better serve more institutional investors.

The Issuer is licensed by the SFC in Hong Kong to provide a comprehensive range of brokerage services including stocks, futures and derivatives trading, margin trading and financing, stock custody, nominees services etc. to its clients.

The Issuer is also a licensed investment adviser and provides a full range of corporate financial services such as financial advisory, initial public offerings, mergers & acquisitions and equity fund raising to local and overseas institutions. As well, the Issuer offers asset management services to its clients.

With the resort of a strong research team at China Merchants Securities Co. Ltd., the clients of the Issuer regularly receive quality daily market analyses and in-depth research reports on mainland Chinese enterprises, so as to help them make investment decisions wisely.

Following the globalization of the securities business in the past decade, the Issuer offers a wide range of international investment opportunities by providing its clients with a platform to trade in different overseas stock markets including the Chinese B-shares listed in Shenzhen and Shanghai.

### Management of the Issuer

The Board of Directors is the most senior body within the Issuer assuming the ultimate responsibility of strategic planning and supervision of its executive management.

The following table sets out the members of the Board of Directors of the Issuer as of 31 December 2011:

#### Board of Directors

Mr. Wang Yan  
Mr. Guo Jian  
Ms. Pan Jie  
Mr. Li Zhi Tao  
Mr. Feng Yu  
Mr. Mau Ying Yuen  
Mr. Lam Siu Hi



## **Risk Management**

China Merchants Securities (HK) Co., Limited (“**CMSHK**” or “**Issuer**”), a subsidiary of China Merchants Securities in China, has a mission of making its risk management and internal control function effective, systematic, and proactive.

CMSHK has established a multi-level independent risk management organizational structure. The Chief Risk Manager is responsible for the overall supervision of the risk management function. The Chief Risk Manager is supported by risk control staff at individual business lines, and reports to the Risk Management Committee of CMSHK. The Risk Management Committee sets the company overall risk management policies and objectives, and reports to the Board of Directors of CMSHK.

### ***Independence of Risk Management***

The risk management function is independent from all trading businesses and reports ultimately to the Board of Directors of CMSHK. This setup ensures independent monitoring of risk taking activities and full objectivity when assessing the risk profile of the Issuer.

Front and back office functions are independent and in line with segregation of duty requirements to create an appropriate control environment.

### ***Risk Management Process***

The independent risk management process of the Issuer can be decomposed into several steps:

- (a) **Risk identification:** Prior to developing new business initiatives, the new business approval process seeks to identify all risks associated with the new businesses to ensure that they can be managed appropriately. Also, Chief Risk Manager reviews risks on an on-going basis to detect risks of new nature that could affect the Issuer’s risk profile and to integrate them into the overall risk framework.
- (b) **Risk quantification:** The Chief Risk Manager develops and maintains adequate methodologies to measure and monitor risks. Market risk quantification techniques are used to quantify certain elements of credit risk.
- (c) **Risk reporting:** Daily risk reporting covering market risk and counterparty risk, ensures timely measurement and monitoring of risks and communication to senior management.
- (d) **Risk controlling and mitigation:** The application of risk limits allows strict maintenance of actual risks within the risks appetite expressed by the Board Directors of the Issuer. Risk limits impose built-in diversification across both market risk positions and asset classes, and for counterparty risk, also across entities of the same group, the same industry sector, or similar ratings. When a risk concentration or any violation is detected, a report will be sent to the Risk Management Committee and handled according to the Issuer’s risk management procedures.

### ***Senior Management Integration***

The Risk Management Committee and the Board of Directors are duly kept informed of the overall risk profile of the Issuer on a regular basis through risk summary reports. All relevant detailed risk information are made available and distributed to business heads and senior management regularly.

The Risk Management Committee holds regular meetings with business heads and senior management to review relevant reports for monitoring and discussing all the on-going risk and operational issues. Material changes in the risk profile and risk concentrations are highlighted to business heads and senior management in a concise and contextual manner.

The Risk Management Committee will also hold special meetings with senior management and Board of Directors of the Issuer, if any significant risk issue arises that requires immediate attention.

## *Risk Categories and Control Process*

### 1. *Market Risk*

Market risk is the exposure to potential losses resulting from changes in the value of the positions held by the Issuer. Market movements impact the value of positions held across various business units of the Issuer, including market making, margin financing, proprietary trading, underwriting commitments and so on.

#### *Risk Analysis*

Several types of risk analytical measures are used to assess, monitor and control market risk at the Issuer.

- (a) **Value-at-Risk (“VaR”):** The VaR measures the maximum potential loss over a given period of time and with a given confidence level. The Issuer uses a one-day horizon, measuring the potential impact of adverse overnight market movements. The VaR is calculated using a 99% confidence level, which means that the observed mark-to-market losses are expected to exceed the VaR predictions around once every 100 days, or 2-3 times a year.
- (b) **Risk sensitivities:** The risk sensitivity measures the value change of the portfolio as a function of fixed percentage changes in individual risk factors, e.g. equity prices, foreign exchange prices, interest rates, etc. This measures the risk of the portfolio and quantifies the immediate value impact of market movements.
- (c) **Stress testing:** The stress testing addresses potential changes in the value of the portfolio under extreme market movements. Each position in the portfolio is fully revalued under a given market scenario, after the market parameters have been shifted by a pre-defined amount. The resulting overall change in portfolio value is a direct indication of the potential profit or loss that the business is exposed to, should the assumed scenario occur.

These three risk measures cover the whole spectrum of possible market changes: risk sensitivities cover immediate and intra-day changes, Value-at-Risk covers severe but fairly likely market movements occurring overnight, while stress testing addresses extreme and very unlikely scenarios unfolding over a few days or weeks.

#### *Policies and limit framework*

Market risk is controlled through policies and limits. Policies establish responsibilities, mainly in terms of limit setting and transactional approval, while market risk limits materialize the risk appetite of the firm.

The market risk limit structure is a framework within which the various businesses of the Issuer must operate. Its objective is to control and limit the amount and the nature of the market risk incurred by the Issuer. It relies on explicit limits applying to some of the market risk measures detailed above, namely Value-at-Risk, risk sensitivities, and stress testing results.

As soon as detected, any breach in risk limits will be reported to the Risk Management Committee and handled according to the risk management procedures of the Issuer, which involve various management levels within the firm.

#### *Risk mitigation*

The first and most important way to mitigate market risk taking is to set up adequate market risk limits, whether in terms of nature or magnitude. Enforcing strict diversification through limit setting, based on the trading mandates of the various businesses, is a powerful tool to reduce the aggregate market risk of the firm across all its businesses.

The second way to mitigate market risk is by direct action. When a specific risk concentration not entirely captured by the limit framework is identified within a business, the market risk function will make hedging or risk reducing recommendations to the relevant business head.

## 2. *Operational Risk*

Operational risk is the risk of losses arising from failed internal processes and systems, from personnel actions or from external events. Operational risk can lead to monetary losses, reputational damage or regulatory sanctions. Typical operational events include transaction errors and information technology system issues.

### *Risk measures*

History of observed monetary losses provides a view on the magnitude of past events. Loss estimates calculated under certain incident scenarios, help to quantify likely losses, especially for new businesses. Both quantification methods are used by the operational risk function.

### *Policy*

The Issuer manages operational risk by establishing clear policies and employing sufficient human and technological resources. Controls over operational risk are designed to ensure that all relevant transactions are appropriately approved and that checks and balances are in place over their processing, recording and reconciliation.

All transactions must be accurately recorded and properly reflected in the internal systems and records on a timely basis. Policies and procedures are reviewed and updated in light of changing market circumstances and regulatory requirements.

The operational risk policy defines the duty of care of all departments in the firm, whether businesses or support and control functions. In particular, it establishes the process leading to the reporting of all incidents and sets up operational risk identification.

### *Risk mitigation*

Existing business activities are periodically reviewed through risk controls and self-assessments. This process aims to identify operational risks yet undetected and to ensure adequate remediation action is taken. Operational incidents are reported and logged on an ongoing basis.

The Issuer's Internal Audit independently assesses its control environment, identifying opportunities for improvement and working with management to mitigate risk and drive change. Internal Audit provides Board of Directors with an independent assessment of the control environment. Internal Audit reviews and evaluates the adequacy of the firm's operating policies and procedures and the effectiveness of internal controls in accordance with established policies and procedures.

## 3. *Credit Risk*

Credit risk is broadly the potential loss resulting from a counterparty or an issuer failing to perform on its contractual obligations. Counterparty risk arises in the context of transactions with other entities, whether security purchases or sales, or over-the-counter transactions. Counterparty risk has four components:

- (a) **Settlement risk:** This is the risk that payment instructions or security delivery instructions are not executed as required and may generate a loss.
- (b) **Marked-to-market risk:** This is the instantaneous loss suffered in case of a counterparty defaulting. This corresponds to the cumulative value of the transaction, minus the sum of all margin calls posted to the Issuer over the life of the trade.

- (c) **Potential future exposure:** This is the likely future positive value of the marked-to-market exposure of the transaction; in other terms, it tells us how large our exposure to a counterparty may become in the future.
- (d) **Liquidation risk:** This is the risk of potential losses arising from liquidation of assets held as collateral, after a counterparty has defaulted.

Issuer risk arises from securities such as bonds undergoing a credit event such as a rating downgrade, a default of coupon payment, or an outright default on the principal amount. Such events usually cause the price of the security to drop and cause a loss to the holder. Issuer risk is measured primarily using the marked-to-market exposure by issuer.

#### *Risk measures*

The Issuer is exposed to various kinds of credit risk across its different business lines and operations. These credit risks are measured separately using dedicated methodologies. Counterparty risk components are measured using true exposure for settlement risk and marked-to-market risks. Potential future exposure and liquidation risk are measured using statistical methods related to market risk techniques.

#### *Policies and limit framework*

Issuer risk and counterparty risk are controlled through their respective limit frameworks. Issuer limits apply by issue rating and by broad issuer family. Debt securities and stocks have separated limits accounting for their different nature.

Counterparty risk is limited using across all components together, with the exception of settlement risk being limited separately since it is seen as fundamentally of different nature to other credit risks.

#### *Risk mitigation*

Credit risk mitigation addresses issuer risk and counterparty risk separately. Issuer risk can be hedged using credit default swaps that will provide a positive pay off in case the referenced securities default, thus offsetting the loss suffered on the bond.

All four components of counterparty risk can be mitigated to some extent.

- (a) **Settlement risk:** Settlement risk is reduced by imposing limits to the amount being settled on any given day with a counterparty. Delivering securities only after the corresponding payment has been delivered to the Issuer removes the settlement risk.
- (b) **Marked-to-market risk:** Market-to-market risk is reduced or altogether eliminated through daily margin call payments. The collateral management team, issues margin calls every day to relevant counterparties in order to bring back the Issuer's exposure within limit, often to zero. Netting of offsetting exposures across different transactions is also used.
- (c) **Potential future exposure:** Potential future exposure can be mitigated by reducing the maximum time after which margin call payments are received from the counterparty.
- (d) **Liquidation risk:** Liquidation risk is mitigated by imposing sufficient liquidity criteria on eligible collateral. In addition, collateral concentration guidelines strongly discourage the emergence of concentration risk in the collateral assets held on the back of relationships with various counterparties.

The Issuer's on-boarding process for its counterparties contributes to the reduction of counterparty risk. The Issuer's credit risk team performs an internal assessment of the credit worthiness of each new counterparty based on a rigorous and comprehensive process.

A credit approval process is carried out for all new counterparties covering:

- (a) the financial status of the client, including, but not limited to, capital, assets, management, earnings and liquidity;
- (b) checks to ensure that the counterparty has appropriate authority to enter into transactions;
- (c) a review to ensure that the proposed transactions are appropriate for that counterparty; and
- (d) assignment of an internal rating according to the internal credit rating methodology.

The above items are used collectively to determine an appropriate credit limit. Legal documentation agreed between the Issuer and the counterparty defines eligible collateral and the margin call mechanism; early termination clauses address situations where the Issuer may want to terminate transactions when becoming uncomfortable with the credit quality of a given counterparty.

#### 4. *Legal and Compliance Risk*

The Board of Directors of the Issuer has the ultimate responsibility for establishing and maintaining an appropriate and effective legal and compliance function within the Issuer and clear policies covering all relevant aspects of the business and operations of the Issuer. The Legal and Compliance Department in conjunction with the Board of Directors are responsible for identifying, measuring and monitoring the key legal and regulatory requirements of the Issuer and assist in the management of such requirements and compliance risks.

The Legal and Compliance Department exercises independent oversight and control over the business activities of the Issuer and is set up primarily to assist the Board of Directors in establishing, maintaining, communicating and enforcing effective compliance policies and procedures of the Issuer, where there is reasonable assurance that business practice complies with the relevant laws and regulations and that material legal and compliance risk is identified.

The process includes but not limited to the following:

- (a) establishing and implementing relevant and effective policies, controls and procedures;
- (b) reviewing and monitoring the business activities of the Issuer, and its directors, officers and employees to ensure compliance with the external and internal laws, rules, regulations, codes, policies and procedural requirements;
- (c) acting as a liaison with relevant external auditors, regulatory authorities and agencies to deal with and resolve compliance issues; and
- (d) providing information to Senior Management on applicable laws, rules, regulations, codes of conduct and requirements to assist them with their compliance responsibilities.

## RISK FACTORS

*Not all of the risk factors described below will be applicable to a particular series of the Structured Products. Please consider all risks carefully prior to investing in any Structured Products and consult your professional independent financial adviser and legal, accounting, tax and other advisers with respect to any investment in the Structured Products. Please read the following section together with the risk factors set out in the relevant supplemental listing document.*

### **General risks in relation to us**

#### *Structured Products are unsecured obligation*

Each series of Structured Products will constitute our general, unsecured and contractual obligations and of no other person and will rank pari passu with our other unsecured contractual obligations. At any given time, the number of Structured Products outstanding may be substantial.

#### *Creditworthiness*

If you purchase our Structured Products, you are relying upon our creditworthiness and have no rights under the Structured Products against:

- (a) any company which issues the underlying shares;
- (b) the trustee or the manager of the underlying trust; or
- (c) any index compiler of the underlying index.

As our obligations under the Structured Products are unsecured, we do not guarantee the repayment of capital invested in any Structured Product.

Any downgrading of our ratings could result in a reduction in the value of the Structured Products.

#### *No deposit liability or debt obligation*

In respect of cash settled Structured Products, we have the obligation to deliver to you the Cash Settlement Amount less any Exercise Expenses in accordance with the Conditions of each series of Structured Products upon expiry. It is not our intention by the issue of any Structured Product (expressed, implicit or otherwise) to create a deposit liability of us or a debt obligation of any kind.

#### *Conflicts of interest*

The Group engages in financial and other activities for our own account or the account of others and, in connection with our other business activities, may possess or acquire material

information about the Underlying Assets to which the relevant Structured Product is linked. Such activities may involve or otherwise affect the Underlying Assets in a manner that may cause consequences adverse to you or otherwise create conflicts of interests in connection with the issue of Structured Products by us. Such actions and conflicts may include, without limitation, the purchase and sale of securities and/or exercise of creditor rights.

The Group:

- (a) has no obligation to disclose such information about the Underlying Assets or such activities. The Group and our respective officers and directors may engage in any such activities without regard to the issue of Structured Products by us or the effect that such activities may directly or indirectly have on any Structured Product;
- (b) may from time to time engage in transactions involving the Underlying Assets for its accounts and/or for accounts under its management and/or to hedge against the market risk associated with issuing the Structured Products. Such transactions may have a positive or negative effect on the price/level of the Underlying Assets and consequently upon the value of the relevant series of Structured Products;
- (c) may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider; and/or
- (d) may issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of Structured Products.

## **General risks in relation to Structured Products**

*You may lose all your investment in the Structured Products*

Structured Products involve a high degree of risk, and are subject to a number of risks which may include interest rate, foreign exchange, time value, market and/or political risks. Structured Products may expire worthless.

Generally speaking, options, warrants and equity linked instruments are priced primarily on the basis of the price/level of the Underlying Asset, the volatility of the Underlying Asset's price/level and the time remaining to expiry of the Structured Product.

The price of Structured Products generally may fall in value as rapidly as they may rise and you should be prepared to sustain a significant or total loss of the purchase price of the Structured Products. Assuming all other factors are held constant, the more the underlying share price, unit price or index level of a Structured Product moves in a direction against you, the greater the risk that you will lose all or a significant part of your investment.

The risk of losing all or any part of the purchase price of a Structured Product means that, in order to recover and realise a return on your investment, you must generally anticipate correctly the direction, timing and magnitude of any change in the price/level of the Underlying Asset as may be specified in the relevant supplemental listing document.

Changes in the price/level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price/level of the Underlying Asset moving in a direction which will negatively impact upon the return on your investment. You therefore risk losing your entire investment if the price/level of the relevant Underlying Asset does not move in your anticipated direction.

*The value of the Structured Products may be disproportionate with or opposite to movement in the price/level of the Underlying Assets*

An investment in Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Assets. The market values of Structured Products are linked to the relevant Underlying Assets and will be influenced (positively or negatively) by it or them but any change may not be comparable and

may be disproportionate. It is possible that while the price/level of the Underlying Assets is increasing, the value of the Structured Product is falling.

If you intend to purchase any series of Structured Products to hedge against the market risk associated with investing in an Underlying Asset specified in the relevant supplemental listing document, you should recognise the complexities of utilising Structured Products in this manner. For example, the value of the Structured Products may not exactly correlate with the price/level of the Underlying Asset. Due to fluctuations in supply and demand for Structured Products, there is no assurance that their value will correlate with movements of the Underlying Asset. The Structured Products may not be a perfect hedge to the Underlying Asset or portfolio of which the Underlying Asset forms a part.

It may not be possible to liquidate the Structured Products at a level which directly reflects the price/level of the Underlying Asset or portfolio of which the Underlying Asset forms a part. Therefore, it is possible that you could suffer substantial losses in the Structured Products in addition to any losses suffered with respect to investments in or exposures to the Underlying Asset.

*Possible illiquidity of secondary market*

It is not possible to predict if and to what extent a secondary market may develop in any series of Structured Products and at what price such series of Structured Products will trade in the secondary market and whether such market will be liquid or illiquid. The fact that the Structured Products are listed does not necessarily lead to greater liquidity than if they were not listed.

If any series of Structured Products are not listed or traded on any exchange, pricing information for such series of Structured Products may be difficult to obtain and the liquidity of that series of Structured Products may be adversely affected.

The liquidity of any series of Structured Products may also be affected by restrictions on offers and sales of the Structured Products in some jurisdictions. Transactions in off-exchange Structured Products may be subject to greater risks than dealing in exchange-traded Structured Products. To the extent that any Structured Products of a series is exercised or closed out, the number of Structured Products outstanding in that series will decrease, which may result in a

lessening of the liquidity of Structured Products. A lessening of the liquidity of the affected series of Structured Products may cause, in turn, an increase in the volatility associated with the price of such Structured Products.

While we have appointed, or will appoint, a liquidity provider for the purposes of making a market for each series of Structured Products, there may be circumstances outside our control or the appointed liquidity provider's control where the appointed liquidity provider's ability to make a market in some or all series of Structured Products is limited, restricted and/or, without limitation, frustrated. The more limited the secondary market, the more difficult it may be for you to realise the value of the Structured Products prior to expiry.

#### *Interest rates*

Investments in the Structured Products may involve interest rate risk with respect to the currency of denomination of the Underlying Assets and/or the Structured Products. A variety of factors influence interest rates such as macro economic, governmental, speculative and market sentiment factors. Such fluctuations may have an impact on the value of the Structured Products at any time prior to valuation of the Underlying Assets relating to the Structured Products.

#### *Time decay*

The settlement amount of certain series of Structured Products at any time prior to expiration may be less than the trading price of such Structured Products at that time. The difference between the trading price and the settlement amount will reflect, among other things, a "time value" of the Structured Products. The "time value" of the Structured Products will depend partly upon the length of the period remaining to expiration and expectations concerning the price/level of the Underlying Assets. The value of a Structured Product will decrease over time. Therefore, the Structured Products should not be viewed as products for long term investments

#### *Exchange rate risk*

There may be an exchange rate risk in the case of cash settled Structured Products where the Cash Settlement Amount will be converted from a foreign currency into Hong Kong dollars. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international

balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation. Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies.

#### *Possible early termination for illegality*

If the Conditions provide for termination due to illegality and we determine that, for reasons beyond our control, the performance of our obligations under the relevant Structured Products has become illegal, we may terminate early the relevant Structured Products. If we terminate early the relevant Structured Products, we will, if and to the extent permitted by applicable law, pay an amount determined by us (acting in good faith and in a commercially reasonable manner) to be the fair market value of the relevant Structured Products notwithstanding the illegality less our cost of unwinding the underlying hedging arrangements.

#### **Modification to the Conditions**

Under the Conditions, we may, without your consent, modify the terms and conditions applicable to the Structured Products if such modification is:

- (a) not materially prejudicial to your interests generally (without considering the circumstances of any individual holder);
- (b) of a formal, minor or technical nature;
- (c) to correct an obvious error; or
- (d) for compliance with any mandatory provisions under applicable laws and regulations.



## **Risks in relation to the Underlying Asset**

### *You have no right to the Underlying Asset*

Unless specifically indicated in the Conditions, you will not be entitled to:

- (a) voting rights or rights to receive dividends or other distributions or any other rights that a holder of the underlying shares or units in the underlying trust would normally be entitled to; or
- (b) voting rights or rights to receive dividends or other distributions or any other rights with respect to any company constituting any underlying index.

### *Valuation risk*

An investment in Structured Products may involve valuation risks in relation to the Underlying Asset to which the particular series of Structured Products relate. The price/level of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro economic factors, market trends, speculation and/or (where the Underlying Asset is an index) changes in the formula for or the method of calculating the index.

In particular, where the Structured Products are linked to certain Underlying Asset in a developing financial market, you should note a developing financial market differs from most developed markets in various aspects, including the growth rate, government involvement and control, level of development and foreign exchange control. Any rapid or significant changes in the economic, political or social condition and the government policies of the developing financial market may result in large fluctuations in the value or level of the Underlying Asset. Such fluctuations may affect the market value of the Structured Products and hence your investment return.

You must be experienced in dealing in these types of Structured Products and must understand the risks associated with dealing in such products. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of any Structured Product in light of your particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the relevant Structured Product relates.

### *Adjustment related risk*

Certain events relating to the Underlying Asset require or, as the case may be, permit us to make certain adjustments or amendments to the Conditions. You have limited anti-dilution protection under the Conditions. We may, in our discretion (acting in good faith and in a commercially reasonable manner):

- (a) in respect of Structured Products relating to single equities or unit trust, adjust, among other things, the Entitlement and the Exercise Price upon expiry or any other terms (including without limitation the closing price of the Underlying Asset) of any series of Structured Products for events such as rights issue, bonus issue, subdivision, consolidation, restructuring event or certain cash distribution; or
- (b) in respect of Structured Products relating to an index, determine the Closing Level.

However, we are not obliged to make an adjustment for every event that may affect an Underlying Asset, in which case the market price of the Structured Products and the return upon the expiry of the Structured Products may be affected.

In the case of Structured Products which relate to an index, the level of the index may be published by the index compiler at a time when one or more components comprising the index are not trading. If this occurs on the Valuation Date which does not constitute a Market Disruption Event under the Conditions, then the Closing Level of the index is calculated by reference to the remaining components in the index. In addition, certain events relating to the index (including a material change in the formula or the method of calculating the index or a failure to publish the index) permit us to determine the level of the index on the basis of the formula or method last in effect prior to such change in formula or method.

### *Suspension of trading*

If an Underlying Asset is suspended from trading or dealing for whatever reason on the market on which it is listed or dealt in (including the Stock Exchange), trading in the relevant series of Structured Products may be suspended for a similar period. The value of the Structured Products will decrease over time as the length of the period remaining to expiration becomes shorter. You should note that in the case of a prolonged suspension period, the market price of

the Structured Products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the Structured Products. This may adversely affect your investment in the Structured Products.

#### *Delay in settlement*

Unless otherwise specified in the relevant Conditions, in the case of expiry of Structured Products, there may be a time lag between the date on which the Structured Products expire, and the time the applicable settlement amount or entitlement relating to such expiry is paid or delivered (as the case may be) to you. Any such delay between the time of expiry and the payment or delivery of the settlement amount or entitlement will be specified in the relevant Conditions.

However, such delay could be significantly longer, particularly in the case of a delay in the expiry of such Structured Products arising from a determination by us that a Market Disruption Event, Settlement Disruption Event or delisting of the underlying shares or units in the underlying trust has occurred at any relevant time or that adjustments are required in accordance with the Conditions.

That applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount or entitlement value (as the case may be) of the Structured Products.

You should note that in the event of there being a Settlement Disruption Event or a Market Disruption Event, payment of the Cash Settlement Amount less any Exercise Expenses may be delayed as more fully described in the Conditions.

### **Risks relating to Structured Products over trusts**

#### *General risk*

In the case of Structured Products which relate to the units of a trust:

- (a) the Group is not able to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee nor the manager of the relevant trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any

obligation to consider the interest of the holders of any Structured Product in taking any actions that might affect the value of any Structured Product; and

- (b) we have no role in the relevant trust. The trustee or manager of the relevant trust is responsible for making investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant trust. The manner in which the relevant trust is managed and the timing of actions may have a significant impact on the performance of the relevant trust. Hence, the market price of the relevant units is also subject to these risks.

#### *Exchange traded funds*

In the case of Structured Products linked to units of an exchange traded fund (“ETF”), you should note that:

- (a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;
- (b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and
- (c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the Structured Products will also be indirectly subject to these risks.

#### *Synthetic exchange traded funds*

Additionally, where the underlying asset of Structured Products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by

investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track (“**Synthetic ETF**”), you should note that:

- (a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and
- (b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of Structured Products linked to such ETF or Synthetic ETF.

#### **Risk relating to the legal form of the Structured Products**

Each Structured Product will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of Central Clearing and Settlement System (“**CCASS**”). A risk of investing in a security that is issued in global registered form and held on your behalf within a clearing system effectively means that evidence of your title, as well as the efficiency of ultimate delivery of the Cash Settlement Amount less any Exercise Expenses, will be subject to the General Rules of CCASS and CCASS Operational Procedures (“**CCASS Rules**”). You should be aware of the following risks:

- (a) you will not receive definitive certificates where the Structured Products remain in the name of HKSCC Nominees Limited for the entire life of the Structured Products;

- (b) any register that is maintained by us or on our behalf, whilst available for inspection by you, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;
- (c) you will have to rely solely upon your brokers/custodians and the statements you receive from such party as evidence of your interest in the investment;
- (d) notices or announcements will be published on the Stock Exchange’s website and/or released by HKSCC to its participants via CCASS in accordance with the CCASS Rules. You will need to check the Stock Exchange’s website regularly and/or rely on your brokers/custodians to obtain such notices/announcements; and
- (e) following the Expiry Date and the determination by us as to the Cash Settlement Amount, our obligations to you will be duly performed by payment of the Cash Settlement Amount (if any) less any Exercise Expenses in accordance with the Conditions to HKSCC Nominees Limited as the “holder” of the Structured Products. HKSCC or HKSCC Nominees Limited will then distribute the received amount (if any) to the respective CCASS participants in accordance with the CCASS Rules.

#### **Effect of the combination of risk factors unpredictable**

Two or more risk factors may simultaneously have an effect on the value of a series of Structured Products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of a series of Structured Products.

## APPENDIX 1 - GENERAL CONDITIONS OF STRUCTURED PRODUCTS

*These General Conditions relate to each series of Structured Products and must be read in conjunction with, and are subject to, the applicable Product Conditions and the Supplemental Listing Document in relation to the particular series of Structured Products. These General Conditions and the applicable Product Conditions (as supplemented, amended, modified and/or replaced by the relevant Supplemental Listing Document) together constitute the Conditions of the relevant Structured Products, and will be endorsed on the Global Certificate representing the relevant Structured Products. The Supplemental Listing Document in relation to the issue of any series of Structured Products may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these General Conditions and the applicable Product Conditions, replace or modify the General Conditions and/or the applicable Product Conditions for the purpose of such series of Structured Products.*

### 1. Definitions

“**Base Listing Document**” means the base listing document relating to Structured Products dated 8 February 2012 and issued by the Issuer, including any addenda to such base listing document issued from time to time;

“**Board Lot**” has the meaning given to it in the relevant Supplemental Listing Document;

“**CCASS**” means the Central Clearing and Settlement System established and operated by HKSCC;

“**CCASS Rules**” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“**Conditions**” means, in respect of a particular series of Structured Products, these General Conditions and the applicable Product Conditions, as supplemented, amended, modified and/or replaced by the relevant Supplemental Listing Document;

“**Expiry Date**” has the meaning given to it in the relevant Supplemental Listing Document;

“**General Conditions**” means these general terms and conditions;

“**Global Certificate**” means, in respect of the relevant Structured Products, a global certificate registered in the name of the Nominee;

“**HKSCC**” means Hong Kong Securities and Clearing Company Limited;

“**Holder**” means, in respect of each series of Structured Products, each person who is for the time being shown in the Register as the holder of the Structured Products, and who shall be treated by the Issuer as the absolute owner and holder of the relevant Structured Products. The expression “**Holders**” shall be construed accordingly;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**Instrument**” means an instrument by way of deed poll dated 2 February 2012 executed by the Issuer which constitutes the Structured Products;

“**Issuer**” means China Merchants Securities (HK) Co., Limited;

“**Nominee**” means HKSCC Nominees Limited (or such other nominee company as may be used by the HKSCC from time to time) in relation to the provision of nominee services to persons admitted for the time being by the HKSCC as a participant of CCASS;

“**Product Conditions**” means the product conditions relating to a particular series of Structured Products;

“**Register**” means, in respect of each series of Structured Products, the register of holders of such series of Structured Products kept by the Issuer outside of Hong Kong pursuant to General Condition 3;

“**Stock Exchange**” means The Stock Exchange of Hong Kong Limited;

“**Structured Products**” means derivative warrants (“**Warrants**”) or such other structured products to be issued by the Issuer from time to time. References to “**Structured Product**” are to be construed as references to a particular series of Structured Products; and

“**Supplemental Listing Document**” means the supplemental listing document relating to a particular series of Structured Products.

Other capitalised terms will, unless otherwise defined, have the meanings given to them in the Base Listing Document, the applicable Product Conditions, the relevant Supplemental Listing Document and/or the Global Certificate.

## **2. Form, Status, Transfer and Trading**

### **2.1 Form**

The Structured Products (which expression shall, unless the context otherwise requires, include any further structured products issued pursuant to General Condition 9) are issued in registered form subject to and with the benefit of the Instrument. A copy of the Instrument is available for inspection at the office of the Issuer. The Holders are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument.

### **2.2 Status of the Issuer’s obligations**

The settlement obligations of the Issuer in respect of the Structured Products represent general, unsecured and contractual obligations of the Issuer and of no other person and rank, and will rank, *pari passu* among themselves and with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

### **2.3 Transfer and Trading of Structured Products**

Transfers of Structured Products may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the CCASS Rules.

Trading in Structured Products on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

## **3. Register**

The Register will be maintained outside Hong Kong by the Issuer and the Issuer will enter or cause to be entered the name, address and banking details of the Holders, the details of the Structured Products held by each Holder, including the number of Structured Products of each series held and any other particulars which it thinks proper.

## **4. Purchases**

The Issuer and/or any of its affiliates may at any time purchase Structured Products at any price in the open market or by tender or by private treaty. Any Structured Products so purchased may be held, resold or surrendered for cancellation.

## **5. Global Certificate**

The Structured Products will be represented by a Global Certificate. No definitive certificate will be issued. The Structured Products can only be exercised by the Nominee. The Global Certificate representing the relevant Structured Products will be deposited with CCASS in the name of the Nominee. The Global Certificate must be executed manually on behalf of the Issuer by its authorised person(s) or attorney(s).

## **6. Meetings of Holders and Modification**

### **6.1 Meetings of Holders**

The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Structured Products or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the Structured Products for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Structured Products for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of Structured Products so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

### **6.2 Modification**

The Issuer may, without the consent of the Holders, effect any modification of the provisions of the Structured Products or the Instrument which is:

- (a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder);
- (b) of a formal, minor or technical nature;
- (c) made to correct an obvious error; or
- (d) necessary in order to comply with mandatory provisions of the applicable laws, regulations, codes, guidelines and other requirements prescribed by the Stock Exchange from time to time.

Any such modification shall be binding on the Holders and shall be notified to them by the Issuer (as the case may be) before the effective date or as soon as practicable thereafter in accordance with General Condition 7.

## **7. Notices**

### **7.1 Website publication**

All notices to the Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Holders.

## **7.2 *Request for copies***

If so requested by any Holder (such request to be communicated to the Issuer), the Issuer will deliver or procure delivery of copies of the notices published pursuant to General Condition 7.1 by post addressed to such Holder at the address recorded in the Registrar and airmail post shall be used if that address is not in Hong Kong. Copies of the notices delivered or sent in accordance with this General Condition shall be sent or delivered at the risk of such Holder.

## **8. *Adjustment to the Conditions***

### **8.1 *Other Adjustments***

In respect of each series of Structured Products, except as provided in General Condition 6.2 and/or the applicable Product Conditions, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's discretion (acting in good faith and in a commercially reasonable manner) and without any obligation whatsoever) to make such adjustments as it believes appropriate in circumstances where an event or events (including the events as contemplated in the applicable Product Conditions) occur which it believes in its discretion (acting in good faith and in a commercially reasonable manner) and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Product Conditions should, in the context of the issue of the Structured Products and the obligations of the Issuer, give rise to such adjustment provided that such adjustment (i) is not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction) or (ii) is otherwise considered by the Issuer to be appropriate acting in good faith and in a commercially reasonable manner.

### **8.2 *Notice of Adjustments***

All determinations made by the Issuer in respect of any adjustment to the Conditions will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with General Condition 7.

## **9. *Further Issues***

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further structured products so as to form a single series with the Structured Products.

## **10. *Taxation***

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or exercise of any Structured Products.

## **11. *Governing Law***

The Structured Products, the Global Certificate and the Instrument will be governed by and construed in accordance with the laws of Hong Kong. The Issuer and each Holder (by its purchase of the Structured Products) shall be deemed to have submitted for all purposes in connection with the Structured Products, the Global Certificates and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

## **12. *Language***

In the event of any inconsistency between (a) the Chinese translation of these General Conditions and/or the applicable Product Conditions and (b) the English version of these General Conditions and/or the applicable Product Conditions, the English version of these General Conditions and/or the applicable Product Conditions shall prevail.

### **13. Prescription**

Claims against the Issuer for payment of any amount in respect of a series of Structured Product will become void unless made within ten years of the Expiry Date applicable to that series and thereafter, any sums payable in respect of such Structured Product shall be forfeited and shall revert to the Issuer.

### **14. Illegality**

The Issuer shall have the right to terminate the Structured Products if it shall have determined in its discretion (acting in good faith and in a commercially reasonable manner) that, for reasons beyond its control, its performance thereunder shall have become unlawful in whole or in part as a result of compliance in good faith by the Issuer with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power (“**Applicable Law**”). In such circumstances, the Issuer will, if and to the extent permitted by the Applicable Law, pay to each Holder in respect of each Structured Product held by such Holder an amount calculated by it (acting in good faith and in a commercially reasonable manner) as the fair market value of the Structured Products immediately prior to such termination (ignoring such illegality) less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with General Condition 7.



## APPENDIX 2 - PRODUCT CONDITIONS OF WARRANTS

*The following pages set out the Product Conditions in respect of different types of Warrants.*

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Part A - Product Conditions of Cash Settled Warrants over Single Equities	26
Part B - Product Conditions of Cash Settled Index Warrants	33
Part C - Product Conditions of Cash Settled Warrants over Single Unit Trust	38

## PART A - PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE EQUITIES

*The relevant Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the applicable Product Conditions, replace or modify the applicable Product Conditions for the purpose of such series of Warrants. Capitalised terms used in the applicable Product Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.*

### 1. Definitions

For the purposes of these Product Conditions:

“**Average Price**” means the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Product Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, share split, merger or consolidation, cash distribution or the like) in respect of each Valuation Date;

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

“**Cash Settlement Amount**” means, in respect of every Board Lot, an amount in Hong Kong dollars calculated by the Issuer as follows:

(a) in the case of a series of call Warrants:

$$\frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

“**Company**” means the company specified as such in the relevant Supplemental Listing Document;

“**Dealing Commencement Date**” means the date specified as such in the relevant Supplemental Listing Document;

“**Designated Bank Account**” means the relevant bank account designated by each Holder;

“**Entitlement**” means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

“**Exercise Price**” means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**General Conditions**” means the general terms and conditions set out in Appendix 1 of the Base Listing Document;

**“Market Disruption Event”** means:

- (a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in:
  - (i) the Shares; or
  - (ii) any options or futures contracts relating to the Shares if, in any such case, that suspension or limitation is, in the determination of the Issuer, material;
- (b) the hoisting of the tropical cyclone warning signal number 8 or above or the hoisting of a “BLACK” rainstorm signal which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening later than its regular time for open of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been hoisted; or
- (c) a limitation or closure of the Stock Exchange due to any other unforeseen circumstances;

**“Product Conditions”** means these product terms and conditions;

**“Settlement Date”** means three Business Days following the Expiry Date;

**“Settlement Disruption Event”** means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the Designated Bank Account;

**“Share”** means the share of the Company specified as such in the relevant Supplemental Listing Document and **“Shares”** shall be construed accordingly; and

**“Valuation Date”** means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its discretion (acting in good faith and in a commercially reasonable manner), that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date.

Provided further that if the postponement of the Valuation Date would result in the Valuation Date falling on or after the Expiry Date, then:

- (a) the Business Day immediately preceding the Expiry Date (the **“Last Valuation Date”**) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document or the Global Certificate.

## **2. Exercise of Warrants**

### **2.1 *Exercise of Warrants in Board Lots***

Warrants may only be exercised on the Expiry Date in Board Lots or integral multiples thereof.

### **2.2 *Automatic Exercise***

Any Warrant will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) minus any Exercise Expenses.

Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

### **2.3 *Exercise Expenses***

On exercise of the Warrants, Holders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses from the Cash Settlement Amount.

Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Product Condition 2, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

### **2.4 *Cancellation***

The Issuer will, with effect from the first Business Day following the Expiry Date, remove from the Register the name of the person in respect of the Warrants which:

- (i) are the subject of an exercise pursuant to automatic exercise in accordance with these Product Conditions; or
- (ii) have expired worthless,

and thereby cancel the relevant Warrants.

### **2.5 *Cash Settlement***

Subject to automatic exercise of Warrants in accordance with these Product Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount minus the determined Exercise Expenses. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount minus the determined Exercise Expenses will be despatched no later than the Settlement Date by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

If, as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with this Product Condition 2.5.

### 3. Adjustments

#### 3.1 *Rights Issues*

If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a “**Rights Offer**”), the Entitlement will be adjusted to take effect on the Business Day (“**Rights Issue Adjustment Date**”) on which trading in the Shares becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

- E: Existing Entitlement immediately prior to the Rights Offer
- S: Cum-Rights Share price determined by the closing price on the Stock Exchange on the last Business Day on which Shares are traded on a cum-Rights basis
- R: Subscription price per new Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights
- M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

“**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

#### 3.2 *Bonus Issues*

If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Entitlement will be increased on the Business Day (“**Bonus Issue Adjustment Date**”) on which trading in the Shares becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

### 3.3 *Share Splits or Consolidations*

If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a “**Subdivision**”) or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a “**Consolidation**”), then:

- (i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and
- (ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

### 3.4 *Merger or Consolidation*

If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the discretion of the Issuer (acting in good faith and in a commercially reasonable manner) be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its discretion (acting in good faith and in a commercially reasonable manner)).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Shares shall include any such cash.

### 3.5 Cash Distribution

No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative) (“**Ordinary Dividend**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution (“**Cash Distribution Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Share on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the date on which the Shares are traded on an ex-Ordinary Dividend basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

## 4. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

## 5. Delisting

### 5.1 Adjustments following delisting

If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Product Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its discretion (acting in good faith and in a commercially reasonable manner), consider

appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Holder or the tax or other consequences that may result in any particular jurisdiction).

## *5.2 Listing on another exchange*

Without prejudice to the generality of Product Condition 5.1, where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Product Conditions may, in the discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.



## PART B - PRODUCT CONDITIONS OF CASH SETTLED INDEX WARRANTS

*The relevant Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the applicable Product Conditions, replace or modify the applicable Product Conditions for the purpose of such series of Warrants. Capitalised terms used in the applicable Product Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.*

### 1. Definitions

For the purposes of these Product Conditions:

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

“**Cash Settlement Amount**” means, for every Board Lot, an amount calculated by the Issuer as follows:

(a) in the case of a series of call Warrants:

$$\frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(b) in the case of a series of put Warrants:

$$\frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

in either case, if appropriate, either converted (if applicable) into:

- (1) the Settlement Currency at the Exchange Rate, or
- (2) into the Interim Currency at the First Exchange Rate and then converted into the Settlement Currency at the Second Exchange Rate;

“**Closing Level**” has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Dealing Commencement Date**” means the date specified as such in the relevant Supplemental Listing Document;

“**Designated Bank Account**” means the relevant bank account designated by each Holder;

“**Divisor**” has the meaning given to it in the relevant Supplemental Listing Document;

“**Exchange Rate**” means the rate specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

“**First Exchange Rate**” means the rate specified as such in the relevant Supplemental Listing Document;

“**General Conditions**” means the general terms and conditions set out in Appendix 1 of the Base Listing Document;

“**Index**” means the index specified in the relevant Supplemental Listing Document;

“**Index Compiler**” has the meaning given to it in the relevant Supplemental Listing Document;

“**Index Currency Amount**” has the meaning given to it in the relevant Supplemental Listing Document;

“**Index Exchange**” means the Stock Exchange or any other exchange as specified in the relevant Supplemental Listing Document;

“**Interim Currency**” has the meaning given to it in the relevant Supplemental Listing Document;

“**Market Disruption Event**” means:

- (a) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading, of any of:
  - (i) the suspension or material limitation of the trading of a material number of constituent securities, contracts, commodities or currencies that comprise the Index;
  - (ii) the suspension or material limitation of the trading of constituent securities, contracts, commodities or currencies:
    - (A) on the Relevant Exchange; or
    - (B) generally;
  - (iii) the suspension or material limitation of the trading of:
    - (A) options or futures contracts relating to the Index on any Related Exchange; or
    - (B) options or futures generally on any options and/or futures exchanges on which options or futures contracts relating to the Index are traded; or
  - (iv) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this definition, (X) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (Y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

- (b) the hoisting of the tropical cyclone warning signal number 8 or above or the hoisting of a “BLACK” rainstorm signal which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session) PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening later than its regular time for open of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been hoisted; or
- (c) a limitation or closure of the Index Exchange, the Relevant Exchange, any Related Exchange or the Stock Exchange due to any other unforeseen circumstances;

“**Product Conditions**” means these product terms and conditions;

“**Related Exchange**” means an options or futures exchange or quotation system on which options contracts or futures contracts or other derivatives contracts on the Index are traded specified in the relevant Supplemental Listing Document;

“**Relevant Exchange**” means the exchange specified in the relevant Supplemental Listing Document;

“**Second Exchange Rate**” means the rate specified as such in the relevant Supplemental Listing Document;

“**Settlement Currency**” means the currency specified as such in the relevant Supplemental Listing Document;

“**Settlement Date**” means three Business Days following the Valuation Date;

“**Settlement Disruption Event**” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the Designated Bank Account;

“**Strike Level**” means the level specified as such in the relevant Supplemental Listing Document; and

“**Valuation Date**” means the Expiry Date, provided that if the Issuer determines, in its discretion (acting in good faith and in a commercially reasonable manner), that on the Valuation Date a Market Disruption Event has occurred, then the Issuer will determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, if applicable, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document or the Global Certificate.

## **2. Exercise of Warrants**

### **2.1 *Exercise of Warrants in Board Lots***

Warrants may only be exercised on the Expiry Date in Board Lots or integral multiples thereof.

### **2.2 *Automatic Exercise***

Any Warrant will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) minus any Exercise Expenses.

Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

### 2.3 *Exercise Expenses*

On exercise of the Warrants, Holders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses from the Cash Settlement Amount.

Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Product Condition 2, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

### 2.4 *Cancellation*

The Issuer will, with effect from the first Business Day following the Expiry Date, remove from the Register the name of the person in respect of the Warrants which:

- (i) are the subject of an exercise pursuant to automatic exercise in accordance with these Product Conditions; or
- (ii) have expired worthless,

and thereby cancel the relevant Warrants.

### 2.5 *Cash Settlement*

Subject to automatic exercise of Warrants in accordance with these Product Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount minus the determined Exercise Expenses. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount minus the determined Exercise Expenses will be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with this Product Condition 2.5.

## 3. **Adjustments to the Index**

### 3.1 *Successor Index Compiler Calculates and Reports Index*

If the Index is:

- (a) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer; or
- (b) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index,

then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

### 3.2 *Modification and Cessation of Calculation of Index*

If:

- (a) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts, commodities or currencies and other routine events); or
- (b) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those securities, contracts, commodities or currencies that have since ceased to be listed on the relevant exchange).

### 3.3 *Market Disruption Events*

Without limiting Product Condition 2.5, if a Market Disruption Event occurs, the Issuer has the right to adjust the Exchange Rate and/or any other relevant variables accordingly. The Issuer shall as soon as reasonably practicable under such circumstances notify the Holders in accordance with General Condition 7 if it determines that a Market Disruption Event has occurred.

### 3.4 *Foreign Currency Controls*

If exchange control or other laws, regulations, directives or guidelines are imposed by any central banking authority or other governmental or regulatory body which:

- (a) requires the Issuer to obtain permission from such authority or body to purchase the Settlement Currency;
- (b) otherwise restricts the Issuer's ability to obtain the Settlement Currency; or
- (c) otherwise adversely regulates the purchase or holding of the Settlement Currency such that additional costs are imposed in obtaining the Settlement Currency which would not be imposed in the absence of such laws, regulations, directives or guidelines, or if the cost of obtaining the Settlement Currency at the Exchange Rate is determined by the Issuer to be excessive because of a disruption in the foreign exchange market relating to the Settlement Currency,

then, upon notice from the Issuer to Holders in accordance with General Condition 7 to such effect, Holders who have exercised their Warrants in accordance with Product Condition 2 shall receive, at the option of the Issuer, in lieu of the Settlement Currency, an amount equal to the Cash Settlement Amount minus the determined Exercise Expenses in any other currency as determined by the Issuer.

## PART C - PRODUCT CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE UNIT TRUST

*The relevant Product Conditions will, together with the General Conditions and the supplemental provisions contained in the relevant Supplemental Listing Document and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the applicable Product Conditions, replace or modify the applicable Product Conditions for the purpose of such series of Warrants. Capitalised terms used in the applicable Product Conditions and not otherwise defined therein shall have the meaning given to them in the relevant Supplemental Listing Document.*

### 1. Definitions

For the purposes of these Product Conditions:

“**Average Price**” means the arithmetic mean of the closing prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Product Conditions) to such closing prices as may be necessary to reflect any rights issue, bonus issue, subdivision, merger or consolidation, cash distribution or the like) in respect of each Valuation Date;

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

“**Cash Settlement Amount**” means, in respect of every Board Lot, an amount in Hong Kong dollars calculated by the Issuer as follows:

(a) in the case of a series of call Warrants:

$$\frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(b) in the case of a series of put Warrants:

$$\frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

“**Dealing Commencement Date**” means the date specified as such in the relevant Supplemental Listing Document;

“**Designated Bank Account**” means the relevant bank account designated by each Holder;

“**Entitlement**” means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of the Warrants;

“**Exercise Price**” means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Product Condition 3;

“**General Conditions**” means the general terms and conditions set out in Appendix 1 of the Base Listing Document;

“**Market Disruption Event**” means:

- (a) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in:
  - (i) the Units; or
  - (ii) any options or futures contracts relating to the Units if, in any such case, that suspension or limitation is, in the determination of the Issuer, material;
- (b) the hoisting of the tropical cyclone warning signal number 8 or above or the hoisting of a “BLACK” rainstorm signal which either results in the Stock Exchange being closed for dealings for an entire day or results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session) PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening later than its regular time for open of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been hoisted; or
- (c) a limitation or closure of the Stock Exchange due to any other unforeseen circumstances;

“**Product Conditions**” means these product terms and conditions;

“**Settlement Date**” means three Business Days following the Expiry Date;

“**Settlement Disruption Event**” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the Designated Bank Account;

“**Trust**” means the trust specified as such in the relevant Supplemental Listing Document;

“**Unit**” means the unit specified as such in the relevant Supplemental Listing Document and “**Units**” shall be construed accordingly; and

“**Valuation Date**” means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its discretion (acting in good faith and in a commercially reasonable manner), that on any Valuation Date a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date.

Provided further that if the postponement of the Valuation Date would result in the Valuation Date falling on or after the Expiry Date, then:

- (a) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and
- (b) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the bid price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be referenced more than once in the determination of the Cash Settlement Amount.

Other capitalised terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the General Conditions, the relevant Supplemental Listing Document or the Global Certificate.

## **2. Exercise of Warrants**

### **2.1 *Exercise of Warrants in Board Lots***

Warrants may only be exercised on the Expiry Date in Board Lots or integral multiples thereof.

### **2.2 *Automatic Exercise***

Any Warrant will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) minus any Exercise Expenses.

Any Warrant which has not been automatically exercised in accordance with this Product Condition 2.2 shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such Warrant shall cease.

### **2.3 *Exercise Expenses***

On exercise of the Warrants, Holders will be obliged to give an irrevocable authorisation to the Issuer to deduct all Exercise Expenses from the Cash Settlement Amount.

Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Product Condition 2, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

### **2.4 *Cancellation***

The Issuer will, with effect from the first Business Day following the Expiry Date, remove from the Register the name of the person in respect of the Warrants which:

- (i) are the subject of an exercise pursuant to automatic exercise in accordance with these Product Conditions; or
- (ii) have expired worthless,

and thereby cancel the relevant Warrants.

### **2.5 *Cash Settlement***

Subject to automatic exercise of Warrants in accordance with these Product Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount minus the determined Exercise Expenses. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable by the Issuer.

The Cash Settlement Amount minus the determined Exercise Expenses will be despatched no later than the Settlement Date by crediting that amount, in accordance with the CCASS Rules, to the Designated Bank Account.

If, as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment



electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with this Product Condition 2.5.

### 3. Adjustments

#### 3.1 *Rights Issues*

If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day ("**Rights Issue Adjustment Date**") on which trading in the Units becomes ex-entitlement in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

Where:

- E: Existing Entitlement immediately prior to the Rights Offer
- S: Cum-Rights Unit price determined by the closing price on the Stock Exchange on the last Business Day on which Units are traded on a cum-Rights basis
- R: Subscription price per new Unit as specified in the Rights Offer plus an amount equal to any distribution or other benefits foregone to exercise the Rights
- M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Product Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

#### 3.2 *Bonus Issues*

If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by

the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Entitlement will be increased on the Business Day (“**Bonus Issue Adjustment Date**”) on which trading in the Units becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

### 3.3 *Subdivisions or Consolidations*

If and whenever the Trust shall subdivide its Units or any class of its outstanding Unit into a greater number of units (a “**Subdivision**”) or consolidate the Units or any class of its outstanding unit capital comprised of the Units into a smaller number of units (a “**Consolidation**”), then:

- (i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and
- (ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

### 3.4 *Merger or Consolidation*

If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the discretion of the Issuer (acting in good faith and in a commercially reasonable manner) be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its discretion (acting in good faith and in a commercially reasonable manner)).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted

Securities may, in the discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this Product Condition 3.4 and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Product Conditions to the Units shall include any such cash.

### 3.5 *Cash Distribution*

No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a script alternative) (“**Ordinary Distribution**”). For any other forms of cash distribution (“**Cash Distribution**”) announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit’s closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution (“**Cash Distribution Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E : Existing Entitlement immediately prior to the Cash Distribution

S: The closing price of the Unit on the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the date on which the Units are traded on an ex-Ordinary Distribution basis is the Cash Distribution Adjustment Date. For the avoidance of doubt, the OD shall be zero if the date on which the Units are traded on an ex-Ordinary Distribution basis is not the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

## 4. **Termination or Liquidation**

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) (“**Trustee**”) (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of the Trustee’s undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order

or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Product Condition 4, “**Termination**” means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) (“**Manager**”) is required to terminate the Trust under the trust deed (“**Trust Deed**”) constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

## **5. Delisting**

### *5.1 Adjustments following delisting*

If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Product Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its discretion (acting in good faith and in a commercially reasonable manner), consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Holder or the tax or other consequences that may result in any particular jurisdiction).

### *5.2 Listing on another exchange*

Without prejudice to the generality of Product Condition 5.1, where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Product Conditions may, in the discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

**APPENDIX 3 - AUDITOR'S REPORT AND OUR ANNUAL  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010**

The information in this Appendix 3 is our annual financial statements for the year ended 31 December 2010. References to page numbers on the following pages are to the page numbers of such annual financial statements.

CHINA MERCHANTS SECURITIES (HK) CO.  
LIMITED

招商證券(香港)有限公司

Reports and Financial Statements  
For the year ended December 31, 2010

CHINA MERCHANTS SECURITIES (HK) CO. LIMITED  
招商證券(香港)有限公司

REPORTS AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

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STATEMENT OF CHANGES IN EQUITY	7
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CHINA MERCHANTS SECURITIES (HK) CO. LIMITED

招商證券(香港)有限公司

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended December 31, 2010.

PRINCIPAL ACTIVITY

The Company is a licensed corporation under the Securities and Futures Ordinance. Its principal activities are to engage in the following regulated activities:

Type 1:	Dealing in securities
Type 2:	Dealing in futures contracts
Type 4:	Advising on securities
Type 6:	Advising on corporate finance
Type 9:	Asset management

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended December 31, 2010 are set out in the statement of comprehensive income on page 5.

An interim dividend of HK\$1.68 per share amounting to HK\$400,000,000 was paid to the shareholders during the year. The directors do not recommend the payment of a final dividend and propose that the profit for the year be retained.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Company are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of the movement of the Company's share capital are set out in note 20 to the financial statements.



## DIRECTORS

The directors during the financial year and up to the date of this report were:

Yu, Weijia  
Guo Jian  
Pan Jie  
Li Zhi Tao  
Mau, Ying Yuen  
Lam, Siu Hi  
Feng Yu

In accordance with Article 82 of the Company's Articles of Association, all directors retire and, being eligible, offer themselves for re-election.

## DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance, to which the Company, its holding companies or any of its fellow subsidiary was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year was the Company, its holding companies or any of its fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board



DIRECTOR

April 28, 2011

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF  
CHINA MERCHANTS SECURITIES (HK) CO. LIMITED

招商證券(香港)有限公司

(incorporated in Hong Kong with limited liability)

Report on the Financial Statements

We have audited the financial statements of China Merchants Securities (HK) Co. Limited (the "Company") set out on pages 5 to 29, which comprise the statement of financial position as at December 31, 2010, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' Responsibility for the Financial Statements**

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the directors of the Company also have a responsibility to ensure that the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 820 "The Audit of Licensed Corporations and Associated Entities of Intermediaries" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement and whether the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

## INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF  
CHINA MERCHANTS SECURITIES (HK) CO. LIMITED - continued

招商證券(香港)有限公司

(incorporated in Hong Kong with limited liability)

### Report on the Financial Statements - continued

#### **Auditor's Responsibility** - continued

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


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

#### **Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at December 31, 2010, and the profits and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

### Report on matters under the Hong Kong Securities and Futures (Keeping of Records) Rules and the Hong Kong Securities and Futures (Accounts and Audit) Rules of the Hong Kong Securities and Futures Ordinance

In our opinion, the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
April 28, 2011

CHINA MERCHANTS SECURITIES (HK) CO. LIMITED  
招商證券(香港)有限公司

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>NOTES</u>	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
Revenue	7	500,213,076	420,144,367
Other income	8	15,363,107	9,711,885
Brokerage fees and commission expenses		(110,990,016)	(101,710,002)
Staff costs	9	(103,186,222)	(86,197,837)
Depreciation and amortisation		(7,358,597)	(8,473,404)
Other operating expenses		(104,584,169)	(83,320,849)
Finance costs	10	(12,821,532)	(12,415,898)
Profit before taxation	9	176,635,647	137,738,262
Taxation	11	(29,139,485)	(25,862,465)
Profit and total comprehensive income for the year		<u>147,496,162</u>	<u>111,875,797</u>

CHINA MERCHANTS SECURITIES (HK) CO. LIMITED

招商證券(香港)有限公司

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2010

	<u>NOTES</u>	<u>2010</u> HK\$	<u>2009</u> HK\$
Non-current assets			
Property and equipment	12	15,750,970	11,336,373
Statutory deposits		1,320,000	1,370,000
Trading rights	13	-	20,833
		<u>17,070,970</u>	<u>12,727,206</u>
Current assets			
Trade receivables	15	2,752,318,731	1,238,232,664
Amount due from immediate holding company	16	34,331,489	10,545,855
Amounts due from fellow subsidiaries	16	10,757,845	22,444,062
Other receivables and prepayment		20,447,745	13,363,012
Bank balances and cash	17	3,807,331,253	3,713,757,179
		<u>6,625,187,063</u>	<u>4,998,342,772</u>
Current liabilities			
Trade payables	18	5,037,955,282	4,175,146,983
Bank borrowings	19	321,000,000	80,000,000
Other payables and accrued charges		119,106,493	101,651,986
Tax liabilities		14,648,395	14,219,308
		<u>5,492,710,170</u>	<u>4,371,018,277</u>
Net current assets		<u>1,132,476,893</u>	<u>627,324,495</u>
		<u>1,149,547,863</u>	<u>640,051,701</u>
Capital and reserve			
Share capital	20	1,000,000,000	238,000,000
Retained profits		149,404,344	401,908,182
Total equity		<u>1,149,404,344</u>	<u>639,908,182</u>
Non-current liabilities			
Deferred tax liabilities	14	143,519	143,519
		<u>1,149,547,863</u>	<u>640,051,701</u>

The financial statements on pages 5 to 29 were approved and authorised for issue by the Board of Directors on April 28, 2011 and are signed on its behalf by:



DIRECTOR



DIRECTOR

CHINA MERCHANTS SECURITIES (HK) CO. LIMITED  
招商證券(香港)有限公司

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 2010

	<u>Share capital</u> HK\$	<u>Retained profits</u> HK\$	<u>Total</u> HK\$
At January 1, 2009	238,000,000	290,032,385	528,032,385
Profit and total comprehensive income for the year	-	111,875,797	111,875,797
At December 31, 2009	238,000,000	401,908,182	639,908,182
Profit and total comprehensive income for the year	-	147,496,162	147,496,162
Share issued	762,000,000	-	762,000,000
Dividend paid (note 21)	-	(400,000,000)	(400,000,000)
At December 31, 2010	<u>1,000,000,000</u>	<u>149,404,344</u>	<u>1,149,404,344</u>

**CHINA MERCHANTS SECURITIES (HK) CO. LIMITED**  
**招商證券(香港)有限公司**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>2010</u> HK\$	<u>2009</u> HK\$
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	176,635,647	137,738,262
Adjustments for:		
Interest income	(105,122,723)	(55,827,033)
Interest expense	12,821,532	12,415,898
Depreciation and amortisation	7,358,597	8,473,404
Gain on disposal of an associate	-	(119,322)
Gain on disposal of property and equipment	(5,154)	-
Operating cash flows before movements in working capital	91,687,899	102,681,209
Increase in trade receivables	(1,514,086,067)	(877,072,402)
Decrease (increase) in amounts due from fellow subsidiaries	11,686,217	(22,418,507)
Increase in bank balances - segregated accounts	(114,464,404)	(1,181,714,757)
(Increase) decrease in amount due from immediate holding company	(23,785,634)	98,427,275
Increase in other receivables and prepayment	(7,084,733)	(129,434)
Increase in trade payables	862,808,299	1,513,892,069
Increase in other payables and accrued charges	17,454,507	33,810,471
Cash used in operations	(675,783,916)	(332,524,076)
Income tax paid	(28,710,398)	(13,080,115)
Interest received	105,122,723	55,827,033
Interest paid	(12,821,532)	(12,415,898)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>(612,193,123)</u>	<u>(302,193,056)</u>
<b>INVESTING ACTIVITIES</b>		
Proceed from disposal of investment in an associate	-	2,000,000
Purchase of property and equipment	(11,753,323)	(7,595,390)
Proceed from disposal of property and equipment	6,116	5,271
Statutory deposits refund (paid)	50,000	(190,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<u>(11,697,207)</u>	<u>(5,780,119)</u>
<b>FINANCING ACTIVITIES</b>		
Loan repaid to a fellow subsidiary	-	(200,000,000)
Proceed from bank borrowings	241,000,000	80,000,000
Dividend paid	(400,000,000)	-
Share issued	762,000,000	-
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<u>603,000,000</u>	<u>(120,000,000)</u>

CHINA MERCHANTS SECURITIES (HK) CO. LIMITED  
招商證券(香港)有限公司

	<u>NOTE</u>	<u>2010</u> <u>HK\$</u>	<u>2009</u> <u>HK\$</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		(20,890,330)	(427,973,175)
CASH AND CASH EQUIVALENTS AT JANUARY 1		<u>34,477,097</u>	<u>462,450,272</u>
CASH AND CASH EQUIVALENTS AT DECEMBER 31		<u>13,586,767</u>	<u>34,477,097</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances - general accounts and cash in hand	17	<u>13,586,767</u>	<u>34,477,097</u>

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2010

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1. GENERAL

The Company is a private limited company incorporated in Hong Kong. Its parent company is China Merchants Securities International Company Limited incorporated in Hong Kong and its ultimate holding company is China Merchants Group Limited, a company incorporated in the People's Republic of China.

The principal activities are securities dealing, provision of securities margin financing and underwriting.

The Company is licensed under the Securities and Futures Ordinance to carry out the following regulated activities:

Type 1	Dealing in securities
Type 2	Dealing in Futures Contracts
Type 4	Advising on securities
Type 6	Advisory on Corporate Finance
Type 9	Asset management

The addresses of the registered office and principal place of business are 48/F., One Exchange Square, Central, Hong Kong.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group cash-settled share-based payment transactions
HKFRS 3 (as revised in 2008)	Business combinations
HKAS 27 (as revised in 2008)	Consolidated and separate financial statements
HKAS 39 (Amendments)	Eligible hedged items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to
HKFRSs issued in 2008	
HK(IFRIC) - INT 17	Distributions of non-cash assets to owners
HK - INT 5	Presentation of financial statements - Classification by the borrower of a term loan that contains a repayment on demand clause

The application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these financial statements and/or disclosures set out in these financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS - continued

New and revised Standards and Interpretations issued but not yet effective

The Company has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures - Transfers of financial assets <sup>3</sup>
HKFRS 9	Financial instruments <sup>4</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets <sup>5</sup>
HKAS 24 (as revised in 2009)	Related party disclosures <sup>6</sup>
HKAS 32 (Amendments)	Classification of rights issues <sup>7</sup>
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement <sup>6</sup>
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after July 1, 2010 or January 1, 2011, as appropriate.

<sup>2</sup> Effective for annual periods beginning on or after July 1, 2010.

<sup>3</sup> Effective for annual periods beginning on or after July 1, 2011.

<sup>4</sup> Effective for annual periods beginning on or after January 1, 2013.

<sup>5</sup> Effective for annual periods beginning on or after January 1, 2012.

<sup>6</sup> Effective for annual periods beginning on or after January 1, 2011.

<sup>7</sup> Effective for annual periods beginning on or after February 1, 2010.

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the financial statements of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Companies Ordinance.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition

Commission income on dealing in securities and futures and placing and underwriting transactions are recognised in the financial statements on a trade date basis when the services are rendered, the amount for which can be reliably estimated and it is probable that the income will be received.

Financial advisory fee income are recognised when services are provided in accordance with the relevant service agreements.

Dividend income from investment is recognised when the Company's rights to receive payment have been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Handling fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.

Property and equipment

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Financial assets**

The Company's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of each category of financial assets are set out below.

*Effective interest method*

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade receivables, other receivables, amounts due from group companies and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

**Impairment of financial assets**

Financial assets, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impaired.

Objective evidence of impairment could include:

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Impairment of financial assets** - continued

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of comprehensive income. When a trade receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the statement of comprehensive income.

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

**Financial liabilities and equity**

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

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's financial liabilities are all classified as other financial liabilities.

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Other financial liabilities*

Other financial liabilities including trade payables, bank borrowings and other payables are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Derecognition**

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

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

Trading rights

Trading rights represent rights to trade on Hong Kong Stock Exchange Limited ("HKEx"). They are stated at cost and amortised using the straight-line method over its estimated useful life.

Trading rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the trading rights' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of determining the recoverable amount of trading rights, the Company estimates the recoverable amount of smallest cash generating unit to which the trading rights belong.

Impairment losses on non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Operating leases

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes profit or loss items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

#### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management is required to exercise significant judgements in making estimates and assumptions. The following is a review of the significant accounting policies that are impacted by judgements and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

##### Impairment allowance for bad and doubtful debts

The policy for impairment allowance for bad and doubtful debts on trade receivables of the Company is based on the evaluation of recoverability and outstanding period of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client. In determining whether impairment loss should be recorded in the statement of comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual trade receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

#### 5. CAPITAL RISK MANAGEMENT

The directors manage the capital of the Company to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of equity balance.

The capital structure of the Company consists of equity attributable to owners of the Company (comprising issued share capital and reserves).

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Company manages its overall capital structure through the payment of dividends and issuance of share capital. The Company's overall strategy remains unchanged throughout the year.

The Company is registered with Hong Kong Securities and Futures Commission ("SFC") and is subject to liquid capital requirements under Hong Kong Securities and Futures (Financial Resources) Rules ("SF(FR)R") adopted by the SFC. Under the SF(FR)R, the Company must maintain its liquid capital (assets and liabilities adjusted as determined by SF(FR)R) in excess of HK\$3 million or 5% of the total adjusted liabilities, whichever is higher. The required information is filed with SFC on a monthly basis. The Company has no non-compliance of the capital requirements imposed by SF(FR)R during the year.



6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	<u>2010</u> HK\$	<u>2009</u> HK\$
Financial assets		
Loans and receivables (including cash and cash equivalents)	6,609,535,886	4,986,682,435
Financial liabilities		
Amortised cost	5,460,148,014	4,338,971,306

Financial risk management objectives and policies

The Company's major financial instruments include trade receivables, other receivables, amount due from/to group companies, bank balances and cash, bank borrowings, trade payables and other payables. Details of the financial instruments are disclosed in the respective notes. These risks include market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The risk associated with those financial instruments and the policy on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner.

**Market risk**

*Currency risk*

The Company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. The Company is mainly exposed to US Dollars.

The Company currently does not have a foreign currency hedging policy. However, the Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities of the Group at the reporting date is as follows:

	<u>Liabilities</u>		<u>Assets</u>	
	<u>2010</u> HK\$	<u>2009</u> HK\$	<u>2010</u> HK\$	<u>2009</u> HK\$
US Dollars	246,499,344	80,380,283	446,994,801	99,085,630
Other	46,655,393	-	55,074,058	18,071

## 6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued**Market risk** - continued*Currency risk* - continuedForeign currency sensitivity

The following table details the Company's sensitivity to a 0.5 per cent change in Hong Kong dollars against the respective foreign currencies. The 0.5 per cent is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analyses of the Company's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit where Hong Kong dollars weakening against the respective currency.

	<u>Foreign currency impact</u>	
	<u>2010</u>	<u>2009</u>
	HK\$	HK\$
Profit before taxation	1,044,571	93,527

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year and exposure does not reflect the exposure during the year. The US Dollar denominated transaction varies from time to time and the risk exposure is borne by the counterparties.

*Interest rate risk*

The Company is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities. Interest bearing financial assets are mainly balances with banks and margin receivables undertaken from carrying interest at prevailing market rates.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 10 basis point (2009: 10 basis points) change is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

At reporting date, if interest rates had been 10 basis point (2009: 10 basis points) higher and all other variables were held constant, the Company's profit before taxation would increased by HK\$5,622,170 (2009: increased by HK\$4,813,000). This is mainly attributable to management's expectation on increase in interest rate.

6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

The Company's financial assets include trade receivables, amount due from fellow subsidiaries/immediate holding company, other receivables and bank balances.

The Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at December 31, 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. In order to minimise the credit risk, the Company has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Company reviews the recoverable amount of each individual trade receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Company's credit risk is significantly reduced.

The Company's concentration of credit risk by geographical locations is mainly in Hong Kong and the People's Republic of China.

The Company had no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

All of the financial assets of the Company are neither past due nor impaired other than trade receivable included in loans and receivable. The credit quality of trade receivables of the Company is included in note 15 of the financial statements.

**Liquidity risk**

In the management of the liquidity risk, the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate the effects of fluctuations in cash flows.

Except for certain bank borrowings which is repayable within 1 week, all the Company's financial liabilities are repayable on demand.

## 6. FINANCIAL INSTRUMENTS - continued

Financial risk management objectives and policies - continued**Liquidity risk - continued**

Also, the settlement terms of trade payables arising from the business of dealing in securities are two days after the trade date as per note 18 to the financial statements. In the opinion of the directors of the Company, no maturity profile is prepared.

The Company relies on bank borrowing as a significant source of liquidity. As at December 31, 2010, the Company has available unutilised bank facilities of HK\$464,350,000 (December 31, 2009: HK\$385,000,000).

Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

## 7. REVENUE

	<u>2010</u> HK\$	<u>2009</u> HK\$
Interest income from:		
- clients	104,975,870	55,244,789
- authorised institutions	146,853	582,244
Commission from dealing in securities	299,577,715	294,777,199
Placing and underwriting commission	59,884,494	46,278,660
Financial advisory income	35,628,144	23,261,475
	500,213,076	420,144,367

## 8. OTHER INCOME

	<u>2010</u> HK\$	<u>2009</u> HK\$
Handling income	13,301,050	9,115,329
Exchange gain	2,048,779	424,780
Sundry income	13,278	171,776
	15,363,107	9,711,885

**CHINA MERCHANTS SECURITIES (HK) CO. LIMITED**  
**招商證券(香港)有限公司**

9. PROFIT BEFORE TAXATION

	<u>2010</u> HK\$	<u>2009</u> HK\$
Profit before taxation has been arrived at after charging:		
Auditor's remuneration	400,000	378,600
Impairment allowance on trade receivables	-	-
Depreciation and amortisation	7,358,597	8,473,404
Operating lease rentals in respect of office premises	27,907,241	25,963,273
Operating lease rentals in respect of staff quarters	635,010	771,386
Directors' remuneration		
- fees	-	-
- other emoluments	10,012,719	9,762,662
- contributions to retirement benefits scheme	36,000	36,000
Other staff cost		
- salaries, bonus and allowances	90,083,906	75,246,876
- contributions to retirement benefit scheme	3,053,597	1,152,299
	<u>103,186,222</u>	<u>86,197,837</u>

10. FINANCE COSTS

	<u>2010</u> HK\$	<u>2009</u> HK\$
Interest paid to authorised institutions	4,597,131	4,299,475
Interest paid to clients	447,161	366,786
Interest paid to brokers	7,777,240	4,909,231
Interest paid to fellow subsidiaries	-	2,840,406
	<u>12,821,532</u>	<u>12,415,898</u>

11. TAXATION

	<u>2010</u> HK\$	<u>2009</u> HK\$
Current tax		
Provision for the year	29,139,485	22,815,959
Underprovision in prior year	-	2,771,417
Deferred tax (note 14):		
Current year expense	-	275,089
	<u>29,139,485</u>	<u>25,862,465</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

## 11. TAXATION - continued

The tax charge for the year can be reconciled to the profit before taxation per the statement of comprehensive income as follows:

	<u>2010</u> HK\$	<u>2009</u> HK\$
Profit before taxation	176,635,647	137,738,262
Tax at the income tax rate of 16.5% (2009: 16.5%)	29,144,882	22,726,813
Tax effect of income that are not taxable	(24,231)	(96,070)
Underprovision in prior year	-	2,771,417
Others	18,834	460,305
Tax charge for the year	29,139,485	25,862,465

## 12. PROPERTY AND EQUIPMENT

	<u>Leasehold improvements</u> HK\$	<u>Furniture, fixtures and office equipment</u> HK\$	<u>Computer equipment</u> HK\$	<u>Motor vehicle</u> HK\$	<u>Total</u> HK\$
<b>COST</b>					
At January 1, 2009	14,489,871	800,306	7,896,912	-	23,187,089
Additions	1,402,128	219,378	5,973,884	-	7,595,390
Disposal	-	-	(12,650)	-	(12,650)
At December 31, 2009	15,891,999	1,019,684	13,858,146	-	30,769,829
Additions	8,258,394	121,380	2,812,099	561,450	11,753,323
Disposal	-	-	(155,724)	-	(155,724)
At December 31, 2010	24,150,393	1,141,064	16,514,521	561,450	42,367,428
<b>DEPRECIATION</b>					
At January 1, 2009	5,250,542	681,681	5,070,923	-	11,003,146
Provided for the year	5,948,956	83,899	2,404,834	-	8,437,689
Eliminated on disposal	-	-	(7,379)	-	(7,379)
At December 31, 2009	11,199,498	765,580	7,468,378	-	19,433,456
Provided for the year	3,921,342	137,083	3,213,836	65,503	7,337,764
Eliminated on disposal	-	-	(154,762)	-	(154,762)
At December 31, 2010	15,120,840	902,663	10,527,452	65,503	26,616,458
<b>CARRYING VALUES</b>					
At December 31, 2010	9,029,553	238,401	5,987,069	495,947	15,750,970
At December 31, 2009	4,692,501	254,104	6,389,768	-	11,336,373

12. PROPERTY AND EQUIPMENT - continued

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

Leasehold improvements	33.33%
Furniture, fixtures and office equipment	33.33%
Computer equipment	33.33%
Motor vehicle	20%

13. TRADING RIGHTS

	Trading rights HK\$
<b>COST</b>	
At January 1, 2009, December 31, 2009 and December 31, 2010	250,000
<b>AMORTISATION</b>	
At January 1, 2009	193,452
Provided for the year	35,715
At December 31, 2009	229,167
Provided for the year	20,833
At December 31, 2010	250,000
<b>CARRYING VALUES</b>	
At December 31, 2010	-
At December 31, 2009	20,833

Trading rights are amortised over 10 years from March 6, 2000, the effective day of the merger of the Stock Exchange Hong Kong, Hong Kong Securities Exchange and Hong Kong Securities Clearing Company Limited.

14. DEFERRED TAX ASSETS (LIABILITIES)

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

	Difference between depreciation and tax allowance HK\$
At January 1, 2009	131,570
Charge to profit or loss for the year	(275,089)
At December 31, 2009	(143,519)
Charge to profit or loss for the year	-
At December 31, 2010	(143,519)

15. TRADE RECEIVABLES

	<u>2010</u> HK\$	<u>2009</u> HK\$
Trade receivables arising from the business of securities dealing and broking:		
Cash clients	470,980,237	385,754,806
Margin clients	1,411,955,152	733,038,897
Brokers	234,342,030	128,502,005
Hong Kong Securities Clearing Company Ltd.	644,104,356	-
Less: Impairment allowance	(9,063,044)	(9,063,044)
	<u>2,752,318,731</u>	<u>1,238,232,664</u>

Included in trade receivables from brokers, amount of HK\$128,377,075 (2009: HK\$90,603,575) represent deposits for stock borrowing transactions.

The Company has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and aging analysis of accounts and on management's judgment, including the current creditworthiness and the past collection history of each client.

Movement in the allowance for bad and doubtful debts:

	<u>2010</u> HK\$	<u>2009</u> HK\$
Balance at the beginning of the year	9,063,044	9,063,044
Bad debt recovered during the year	-	-
Increase during the year	-	-
Balance at the end of the year	<u>9,063,044</u>	<u>9,063,044</u>



## 15. TRADE RECEIVABLES - continued

In determining the recoverability of the trade receivables, the directors of the Company consider any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further impairment required in excess of the allowance for doubtful debts.

Included in the trade receivables, with a carrying amount of HK\$19,587,707 (2009: HK\$10,516,499) which are past due at the reporting date for which the directors of the Company considered them as recoverable since the amounts are either fully secured by collateral pledged by the customers or subsequently settled and thus no impairment is considered necessary.

In respect of trade receivables which are past due but not impaired at the respective end of reporting period, the aged analysis is as follows:

	<u>2010</u> HK\$	<u>2009</u> HK\$
0 - 30 days	13,007,546	10,180,990
Over 30 days	6,580,161	335,609
	<u>19,587,707</u>	<u>10,516,499</u>

The trade receivables with a carrying amount of HK\$2,732,731,024 (2009: HK\$1,227,716,165) which are neither past due nor impaired at the reporting date for which the directors of the Company believe that the amounts are considered recoverable.

The settlement terms of trade receivables arising from the business of dealing in securities are two days after trade date. The trade receivables from brokers of HK\$128,377,075 (2009: HK\$90,603,575) represents deposits paid for stock borrowing activities which would be settled once the stock borrowed are returned.

At December 31, 2010 and 2009, the total market value of securities pledged as collateral in respect of margin clients approximately HK\$5,807,861,000 and HK\$3,118,692,000 respectively.

## 16. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand.

17. BANK BALANCES AND CASH

	<u>2010</u> HK\$	<u>2009</u> HK\$
Bank balances		
- general accounts	13,475,416	34,452,580
- segregated accounts (note)	3,793,744,486	3,679,280,082
Cash in hand	111,351	24,517
	<u>3,807,331,253</u>	<u>3,713,757,179</u>

Note: From the Company's ordinary business, it receives and holds money deposited by clients in the course of the conduct of the regulated activities. These clients' monies are maintained in one or more segregated bank accounts. The Company has recognised the corresponding account payables to respective clients as the Company does not have a currently enforceable right to offset those payables with the deposits placed.

18. TRADE PAYABLES

	<u>2010</u> HK\$	<u>2009</u> HK\$
Trade payables arising from the business of securities dealing and broking:		
Cash clients	3,050,565,398	2,826,644,444
Margin clients	1,341,879,809	1,271,496,330
Clearing house	629,076,124	75,093,773
Brokers	16,433,951	1,912,436
	<u>5,037,955,282</u>	<u>4,175,146,983</u>

Included in cash clients, amount of HK\$133,267,175 (2009: HK\$95,853,450) represents a deposit for stock lending transactions from the immediate holding company.

The settlement terms of trade payables arising from the business of dealing in securities are two days after the trade date. The trade payables to certain margin and cash clients arising from the business of dealing in securities bear variable interest at commercial rates, and are repayable on demand subsequent to settlement date.

As at December 31, 2010, trade payables amounting HK\$3,793,744,486 (2009: HK\$3,679,280,082) were payable to clients and The Hong Kong Securities Clearing Company Limited ("HKSCC") in respect of the segregated bank balances received and held for clients and HKSCC in the course of conducting the regulated activities.

19. BANK BORROWINGS

The Company's bank borrowings are denominated in Hong Kong dollars and carry interests at market interest rates.

20. SHARE CAPITAL

	<u>2010</u> HK\$	<u>2009</u> HK\$
Ordinary shares of HK\$1 each		
Authorised:		
At December 31	3,000,000,000	300,000,000
Issued and fully paid:		
At December 31	1,000,000,000	238,000,000

The Company increased its authorised share capital from 300,000,000 to 3,000,000,000 shares on April 19, 2010. The Company issued 500,000,000 shares and 262,000,000 shares at HK\$1 each on April 20, 2010 and April 21, 2010 respectively. The proceeds were used for general working capital purpose.

21. DIVIDEND PAID

	<u>2010</u> HK\$	<u>2009</u> HK\$
Dividends recognised as distribution during the year:		
2010 Interim - HK\$1.68 per share (2009: nil)	400,000,000	-

22. OPERATING LEASES COMMITMENTS

At the end of reporting period, the Company had total commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<u>2010</u> HK\$	<u>2009</u> HK\$
Within one year	15,687,049	29,144,804
In the second to fifth year inclusive	53,848,994	5,573,660
	<u>69,536,043</u>	<u>34,718,464</u>

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

23. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with related parties:

	<u>2010</u> HK\$	<u>2009</u> HK\$
Operating lease rental paid to holding company	12,000	-
Trade receivable from a fellow subsidiary	2,030,555	-
Trade payable due to immediate holding company	83,425,523	756,335
Trade payable to a fellow subsidiary	10,430	-
Operating lease rental paid to fellow subsidiaries	-	140,000
Trade receivable from intermediate holding company act as broker	93,462,268	37,343,516
Interest income from immediate holding company	-	4,708,140
Interest expense to a fellow subsidiary	-	2,840,406
Commission income from immediate holding company	6,342,427	1,625,414
Commission income from fellow subsidiary	559,072	853,411

As at both year ends, the balances with related parties are set out in the statement of financial position and respective notes.

Compensation of key management personnel

The compensation of key management personnel represents the director's remuneration as disclosed in note 9.

24. EVENT AFTER THE REPORTING PERIOD

On April 13, 2011, the Company issued additional 1,000,000,000 shares at HK\$1 each amounted to HK\$1,000,000,000 to the shareholder of the Company. After the transaction, the paid up capital of the Company increased from HK\$1,000,000,000 to HK\$2,000,000,000.

**APPENDIX 4 - AUDITOR'S REPORT AND INTERIM FINANCIAL  
INFORMATION FOR THE PERIOD FROM 1 JANUARY 2011 TO  
30 APRIL 2011**

The information in this Appendix 4 is our interim financial information for the period from 1 January 2011 to 30 April 2011. References to page numbers on the following pages are to the page numbers of such interim financial information.

CHINA MERCHANTS SECURITIES (HK) CO.  
LIMITED

招商證券(香港)有限公司

Report and Interim Financial Information  
For the period from January 1, 2011 to April 30, 2011

REPORT AND INTERIM FINANCIAL INFORMATION  
FOR THE PERIOD FROM JANUARY 1, 2011 TO APRIL 30, 2011

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## INDEPENDENT AUDITOR'S REPORT

### TO THE BOARD OF DIRECTORS OF CHINA MERCHANTS SECURITIES (HK) CO. LIMITED

招商證券(香港)有限公司

(incorporated in Hong Kong with limited liability)

We have audited the interim financial information of China Merchants Securities (HK) Co. Limited (the "Company") set out on pages 3 to 24, which comprise the condensed statement of financial position as at April 30, 2011, and the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period from January 1, 2011 to April 30, 2011, and certain explanatory notes.

### **Directors' Responsibility for the Interim Financial Information**

The directors of the Company are responsible for the preparation and presentation of interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants, and for such internal control as the directors determine is necessary to enable the preparation of the interim financial information that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on this interim financial information based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the interim financial information is free from material misstatement.

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

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



INDEPENDENT AUDITOR'S REPORT


TO THE BOARD OF DIRECTORS OF  
CHINA MERCHANTS SECURITIES (HK) CO. LIMITED - continued  
招商證券(香港)有限公司  
(incorporated in Hong Kong with limited liability)

**Opinion**

In our opinion, the interim financial information is prepared, in all material respects, in accordance with HKAS 34.

**Other Matter**

The condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the period from January 1, 2010 to April 30, 2010 and the relevant explanatory notes have not been audited.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants  
Hong Kong  
September 23, 2011

CONDENSED STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE PERIOD FROM JANUARY 1, 2011 TO APRIL 30, 2011


	<u>NOTES</u>	1.1.2011 to 4.30.2011 HK\$	1.1.2010 to 4.30.2010 HK\$ (unaudited)
Revenue	6	156,309,021	159,548,876
Other income	7	9,673,928	3,060,890
Brokerage fees and commission expenses		(29,353,969)	(37,620,213)
Staff costs	8	(40,521,800)	(27,736,041)
Depreciation and amortisation		(2,489,674)	(2,829,221)
Other operating expenses	8	(31,660,579)	(24,435,472)
Finance costs	9	(2,634,523)	(2,382,913)
Profit before taxation	8	59,322,404	67,605,906
Taxation	10	(7,507,783)	(11,149,578)
Profit and total comprehensive income for the period		<u>51,814,621</u>	<u>56,456,328</u>


## CONDENSED STATEMENT OF FINANCIAL POSITION

AS AT APRIL 30, 2011

	NOTES	4.30.2011 HK\$	12.31.2010 HK\$
<b>Non-current assets</b>			
Property and equipment	11	18,022,055	15,750,970
Statutory deposits		1,180,000	1,320,000
		<u>19,202,055</u>	<u>17,070,970</u>
<b>Current assets</b>			
Trade receivables	13	3,099,387,261	2,752,318,731
Amount due from immediate holding company	14	51,920,791	34,331,489
Amounts due from fellow subsidiaries	14	4,832,252	10,757,845
Other receivables, prepayment and deposits	19	27,370,538	20,447,745
Bank balances and cash - segregated accounts	15	4,109,225,946	3,793,744,486
Bank balances and cash - general accounts	15	1,037,834,523	13,586,767
		<u>8,330,571,311</u>	<u>6,625,187,063</u>
<b>Current liabilities</b>			
Trade payables	16	5,638,068,125	5,037,955,282
Bank borrowings	17	391,000,000	321,000,000
Other payables and accrued charges	20	102,927,288	119,106,493
Tax liabilities		16,415,469	14,648,395
		<u>6,148,410,882</u>	<u>5,492,710,170</u>
<b>Net current assets</b>		<u>2,182,160,429</u>	<u>1,132,476,893</u>
		<u>2,201,362,484</u>	<u>1,149,547,863</u>
<b>Capital and reserve</b>			
Share capital	18	2,000,000,000	1,000,000,000
Retained profits		201,218,965	149,404,344
<b>Total equity</b>		<u>2,201,218,965</u>	<u>1,149,404,344</u>
<b>Non-current liabilities</b>			
Deferred tax liabilities	12	143,519	143,519
		<u>2,201,362,484</u>	<u>1,149,547,863</u>

The interim financial information on pages 3 to 24 were approved and authorised for issue by the Board of Directors on September 23, 2011 and are signed on its behalf by:

  
 \_\_\_\_\_  
 DIRECTOR

  
 \_\_\_\_\_  
 DIRECTOR

CONDENSED STATEMENT OF CHANGES IN EQUITY  
 FOR THE PERIOD FROM JANUARY 1, 2011 TO APRIL 30, 2011

	<u>Share capital</u> HK\$	<u>Retained profits</u> HK\$	<u>Total</u> HK\$
At January 1, 2010 (audited)	238,000,000	401,908,182	639,908,182
Profit and total comprehensive income for the period (unaudited)	-	56,456,328	56,456,328
Share issued (unaudited)	762,000,000	-	762,000,000
Dividend paid (unaudited) (note 21)	-	(400,000,000)	(400,000,000)
At April 30, 2010 (unaudited)	1,000,000,000	58,364,510	1,058,364,510
Profit and total comprehensive income for the period (unaudited)	-	91,039,834	91,039,834
At December 31, 2010 (audited)	1,000,000,000	149,404,344	1,149,404,344
Profit and total comprehensive income for the period (audited)	-	51,814,621	51,814,621
Share issued (audited)	1,000,000,000	-	1,000,000,000
At April 30, 2011 (audited)	<u>2,000,000,000</u>	<u>201,218,965</u>	<u>2,201,218,965</u>

CONDENSED STATEMENT OF CASH FLOWS  
FOR THE PERIOD FROM JANUARY 1, 2011 TO APRIL 30, 2011

	1.1.2011 to 4.30.2011 HK\$	1.1.2010 to 4.30.2010 HK\$ (unaudited)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	59,322,404	67,605,906
Adjustments for:		
Interest income	(45,308,901)	(26,065,981)
Interest expense	2,634,523	2,382,913
Depreciation and amortisation	2,489,674	2,829,221
Operating cash flows before movements in working capital	19,137,700	46,752,059
Increase in trade receivables	(347,068,530)	(1,282,576,075)
Increase in bank balances - segregated accounts	(315,481,460)	(273,580,224)
(Increase) decrease in other receivables and prepayment	(6,922,793)	7,928,398
Increase in trade payables	600,112,843	355,390,889
Decrease in other payables and accrued charges	(16,179,205)	(30,243,373)
Cash used in operations	(66,401,445)	(1,176,328,326)
Income tax paid	(5,740,709)	(3,824,854)
Interest received	45,308,901	26,065,981
Interest paid	(2,634,523)	(2,382,913)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(29,467,776)</b>	<b>(1,156,470,112)</b>
<b>INVESTING ACTIVITIES</b>		
Decrease in amounts due from fellow subsidiaries	5,925,593	22,444,063
Increase in amount due from immediate holding company	(17,589,302)	(52,785,823)
Purchase of property and equipment	(4,760,759)	(343,829)
Statutory deposits refund	140,000	(20,000)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(16,284,468)</b>	<b>(30,705,589)</b>
<b>FINANCING ACTIVITIES</b>		
Proceed from bank borrowings	70,000,000	876,000,000
Dividend paid	-	(400,000,000)
Share issued	1,000,000,000	762,000,000
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>1,070,000,000</b>	<b>1,238,000,000</b>

	1.1.2011 to 4.30.2011 HK\$	1.1.2010 to 4.30.2010 HK\$ (unaudited)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,024,247,756	50,824,299
CASH AND CASH EQUIVALENTS AT JANUARY 1	<u>13,586,767</u>	<u>34,477,097</u>
CASH AND CASH EQUIVALENTS AT APRIL 30	<u>1,037,834,523</u>	<u>85,301,396</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS AT APRIL 30		
Bank balances and cash - general accounts	<u>1,037,834,523</u>	<u>85,301,396</u>

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NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION  
FOR THE PERIOD FROM JANUARY 1, 2011 TO APRIL 30, 2011

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1. GENERAL

The Company is a limited company incorporated in Hong Kong. Its parent company is China Merchants Securities International Company Limited incorporated in Hong Kong and its ultimate holding company is China Merchants Group Limited, a company incorporated in the People's Republic of China ("PRC") and directly managed by the State-owned Assets Supervision and Administration Committee of the State Council which is controlled by the PRC government..

The principal activities are securities dealing, provision of securities margin financing and underwriting.

The Company is licensed under the Securities and Futures Ordinance to carry out the following regulated activities:

Type 1	Dealing in securities
Type 2	Dealing in Futures Contracts
Type 4	Advising on securities
Type 6	Advisory on Corporate Finance
Type 9	Asset management

The addresses of the registered office and principal place of business are 48/F., One Exchange Square, Central, Hong Kong.

The interim financial information are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Company has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
HKAS 32 (Amendments)	Classification of rights issues
HK(IFRIC) - INT 14 (Amendments)	Prepayments of a minimum funding requirement
HK(IFRIC) - INT 19	Extinguishing financial liabilities with equity instruments

Except as described below, the application of the new and revised Standards and Interpretations in the current period has had no material effect on the amounts reported in the financial information and/or disclosures set out in the financial information.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS - continued

The Company has applied HKAS 24 Related Party Disclosures (as revised in 2009) in full for the first time in the current period. The application of HKAS 24 (as revised in 2009) has resulted in changes in related party disclosures, as set out in note 23.

The Company is a government-related entity as defined in HKAS 24 (as revised in 2009). HKAS 24 (as revised in 2009) provides a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. Under HKAS 24 (as revised in 2009), the Company has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the government that has control over the Company and (b) other entities that are controlled, jointly controlled, or significantly influenced by the same government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Company to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no effect on the amounts recognised or recorded in the interim financial information for the current and prior periods. However, the related party disclosures set out in note 23 to the interim financial information have been changed to reflect the application of HKAS 24 (as revised in 2009).

New and revised Standards and Interpretations issued but not yet effective

The Company has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRS 7 (Amendments)	Disclosures - Transfers of financial assets <sup>1</sup>
HKFRS 9	Financial instruments <sup>2</sup>
HKFRS 10	Consolidated financial statements <sup>2</sup>
HKFRS 11	Joint arrangements <sup>2</sup>
HKFRS 12	Disclosure of interests in other entities <sup>2</sup>
HKFRS 13	Fair value measurement <sup>2</sup>
HKAS 1 (Amendments)	Presentation of items of other comprehensive income <sup>4</sup>
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets <sup>3</sup>
HKAS 19 (Revised 2011)	Employee benefits <sup>2</sup>
HKAS 27 (Revised 2011)	Separate financial statements <sup>2</sup>
HKAS 28 (Revised 2011)	Investments in associates and joint ventures <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after July 1, 2011.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2013.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2012.

<sup>4</sup> Effective for annual periods beginning on or after July 1, 2012.

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the interim financial information of the Company.



3. SIGNIFICANT ACCOUNTING POLICIES

The interim financial information has been prepared on the historical cost basis as explained in the accounting policies set out below.

The interim financial information has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA.

Revenue recognition

Brokerage and commission income is recognised on a trade date basis when the relevant transactions are executed and related services are provided. Underwriting commission is recognised once the corresponding underlying exposure has ceased.

Financial advisory fee income is recognised when services are provided in accordance with the relevant service agreements.

Dividend income from investment is recognised when the Company's rights to receive payment have been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Handling fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.

Property and equipment

Property and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

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

**Financial assets**

The Company's financial assets are classified into loans and receivables.

*Effective interest method*

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade receivables, other receivables, amounts due from group companies and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

**Impairment of financial assets**

Financial assets, are assessed for indicators of impairment at the end of the reporting period. The trade receivables are assessed on an individual basis. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impaired.

Objective evidence of impairment could include:

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Impairment of financial assets** - continued

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an individual allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss in the statement of comprehensive income. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss in the statement of comprehensive income.

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

**Financial liabilities and equity**

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

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The Company's financial liabilities are all classified as other financial liabilities.

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Financial liabilities including trade payables, bank borrowings and other payables are subsequently measured at amortised cost, using the effective interest rate method.

*Equity instruments*

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

**Derecognition**

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

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

Securities borrowing and lending

Cash collateral received under securities lending arrangements are included in trade payables in the Company's statement of financial position. Fee income is accrued on a time basis, by reference to the value of stock and the number of days of lending.

Cash collateral paid under securities borrowing arrangement are included in trade receivable in the Company's statement of financial position. Fee expenses is accrued on a time basis, by reference to the value of stock and the number of days of borrowing.

Impairment losses on non-financial assets

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Operating leases

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

3. SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes profit or loss items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates (and tax laws) that have been enacted or substantially enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

In preparing the interim financial information of the Company, transactions in currencies other than the functional currency of the Company (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at that dates. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit costs

Payments to defined contribution retirement benefit plans/the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing the financial information, management is required to exercise significant judgements in making estimates and assumptions. The following is a review of the significant accounting policies that are impacted by judgements and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

Impairment allowance for bad and doubtful debts

The policy for impairment allowance for bad and doubtful debts on trade receivables of the Company is based on the evaluation of recoverability and outstanding period of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each client. In determining whether impairment loss should be recorded in the statement of comprehensive income, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual trade receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly.

5. CAPITAL RISK MANAGEMENT

The directors manage the capital of the Company to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of equity balance.

The capital structure of the Company consists of equity attributable to owners of the Company (comprising issued share capital and reserves).

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Company manages its overall capital structure through the payment of dividends and issuance of share capital. The Company's overall strategy remains unchanged throughout the period.

The Company is registered with Hong Kong Securities and Futures Commission ("SFC") and is subject to liquid capital requirements under Hong Kong Securities and Futures (Financial Resources) Rules ("SF(FR)R") adopted by the SFC. Under the SF(FR)R, the Company must maintain its liquid capital (assets and liabilities adjusted as determined by SF(FR)R) in excess of HK\$3 million or 5% of the total adjusted liabilities, whichever is higher. The required information is filed with SFC on a monthly basis. The Company has no non-compliance of the capital requirements imposed by SF(FR)R during the period.

6. REVENUE

	1.1.2011 to <u>4.30.2011</u> HK\$	1.1.2010 to <u>4.30.2010</u> HK\$ (unaudited)
Interest income from:		
- clients	45,241,591	26,348,581
- authorised institutions	67,310	133,108
Commission from dealing in securities	82,190,276	100,109,587
Placing and underwriting commission	17,633,188	23,320,423
Financial advisory income	11,176,656	9,637,177
	<u>156,309,021</u>	<u>159,548,876</u>

7. OTHER INCOME

	1.1.2011 to <u>4.30.2011</u> HK\$	1.1.2010 to <u>4.30.2010</u> HK\$ (unaudited)
Handling income	2,494,141	2,851,457
Exchange gain	7,168,312	209,433
Sundry income	11,475	-
	<u>9,673,928</u>	<u>3,060,890</u>

8. PROFIT BEFORE TAXATION

	1.1.2011 to <u>4.30.2011</u> HK\$	1.1.2010 to <u>4.30.2010</u> HK\$ (unaudited)
Profit before taxation has been arrived at after charging:		
Included in other operating expenses:		
- operating lease rentals in respect of office premises	8,724,391	8,001,226
- operating lease rentals in respect of staff quarters	245,492	-
- travelling and entertainment	4,275,647	2,606,617
- data communication charges	6,261,080	4,750,340
- advertising and promotion	5,441,473	3,022,299
Depreciation and amortisation	2,489,674	2,829,221
Directors' remuneration		
- fees	-	-
- other emoluments and discretionary bonus*	9,252,320	7,293,527
- contribution to retirement benefits scheme	17,532	36,000
Other staff cost		
- salaries, bonus and allowances	30,442,503	19,839,652
- contributions to retirement benefit scheme	809,445	566,862
	<u>40,521,800</u>	<u>27,736,041</u>

\* The discretionary bonus is determined based on the performance of individuals and market trends.

9. FINANCE COSTS

	1.1.2011 to <u>4.30.2011</u> HK\$	1.1.2010 to <u>4.30.2010</u> HK\$ (unaudited)
Interest paid to authorised institutions	2,055,913	563,337
Interest paid to clients	156,618	134,261
Interest paid to brokers	421,992	1,685,315
	<u>2,634,523</u>	<u>2,382,913</u>

10. TAXATION

	1.1.2011 to <u>4.30.2011</u> HK\$	1.1.2010 to <u>4.30.2010</u> HK\$ (unaudited)
Current tax		
Provision for the period	10,238,818	11,149,578
Overprovision in prior years	<u>(2,731,035)</u>	<u>-</u>
	<u>7,507,783</u>	<u>11,149,578</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for prior and current period.

The tax charge for the period can be reconciled to the profit before taxation per the condensed statement of comprehensive income as follows:

	1.1.2011 to <u>4.30.2011</u> HK\$	1.1.2010 to <u>4.30.2010</u> HK\$ (unaudited)
Profit before taxation	<u>59,322,404</u>	<u>67,605,906</u>
Tax at the income tax rate of 16.5% (2010: 16.5%)	9,788,197	11,154,974
Tax effect of income that are not taxable	(11,106)	(21,963)
Overprovision in prior years	<u>(2,731,035)</u>	<u>-</u>
Others	461,727	16,567
Tax charge for the period	<u>7,507,783</u>	<u>11,149,578</u>



## 11. PROPERTY AND EQUIPMENT

	Leasehold improvements HK\$	Furniture, fixtures and office equipment HK\$	Computer equipment HK\$	Motor vehicle HK\$	Total HK\$
<b>COST</b>					
At January 1, 2010	15,891,999	1,019,684	13,858,146	-	30,769,829
Addition	-	25,000	318,829	-	343,829
At April 30, 2010	15,891,999	1,044,684	14,176,975	-	31,113,658
Additions	8,258,394	96,380	2,493,270	561,450	11,409,494
Disposal	-	-	(155,724)	-	(155,724)
At December 31, 2010	24,150,393	1,141,064	16,514,521	561,450	42,367,428
Additions	3,932,744	6,980	821,035	-	4,760,759
Disposal	-	-	(8,576)	-	(8,576)
At April 30, 2011	28,083,137	1,148,044	17,326,980	561,450	47,119,611
<b>DEPRECIATION</b>					
At January 1, 2010	11,199,498	765,580	7,468,378	-	19,433,456
Provided for the period	1,704,899	44,633	1,079,689	-	2,829,221
At April 30, 2010	12,904,397	810,213	8,548,067	-	22,262,677
Provided for the period	2,216,443	92,450	2,134,147	65,503	4,508,543
Eliminated on disposal	-	-	(154,762)	-	(154,762)
At December 31, 2010	15,120,840	902,663	10,527,452	65,503	26,616,458
Provided for the period	1,208,349	164,325	1,079,570	37,430	2,489,674
Eliminated on disposal	-	-	(8,576)	-	(8,576)
At April 30, 2011	16,329,189	1,066,988	11,598,446	102,933	29,097,556
<b>CARRYING VALUES</b>					
At April 30, 2011	11,753,948	81,056	5,728,534	458,517	18,022,055
At December 31, 2010	9,029,553	238,401	5,987,069	495,947	15,750,970
At April 30, 2010	2,987,602	234,471	5,628,908	-	8,850,981

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

Leasehold improvements	33.33%
Furniture, fixtures and office equipment	33.33%
Computer equipment	33.33%
Motor vehicle	20%

12. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by the Company:

	Accelerated tax depreciation HK\$
At January 1, 2009, April 30, 2010 (unaudited), December 31, 2010 and April 30, 2011	(143,519)

13. TRADE RECEIVABLES

	<u>4.30.2011</u> HK\$	<u>12.31.2010</u> HK\$
Trade receivables arising from the business of securities dealing and broking:		
Cash clients	531,645,753	470,980,237
Margin clients	1,482,215,958	1,411,955,152
Brokers	448,286,849	234,342,030
Hong Kong Securities Clearing Company Ltd.	633,539,277	644,104,356
Less: Impairment allowances		
- margin clients	(6,984,924)	(6,984,924)
- cash clients	(2,078,120)	(2,078,120)
	<u>3,086,624,793</u>	<u>2,752,318,731</u>
Trade receivables arising from the corporate finance activities:	12,762,468	-
	<u>3,099,387,261</u>	<u>2,752,318,731</u>

The Company has policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and aging analysis of accounts and on management's judgment, including the current creditworthiness and the past collection history of each client.

Movement in impairment allowances:

	<u>4.30.2011</u> HK\$	<u>12.31.2010</u> HK\$
Balance at the beginning of the period/year	9,063,044	9,063,044
Bad debt recovered during the period/year	-	-
Increase during the period/year	-	-
Balance at the end of the period/year	<u>9,063,044</u>	<u>9,063,044</u>

## 13. TRADE RECEIVABLES - continued

In determining the recoverability of the trade receivables, the directors of the Company consider any change in the credit quality of individual trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated.

Included in the trade receivables, with a carrying amount of HK\$48,426,850 (2010: HK\$19,587,707) which are past due at the reporting date for which the directors of the Company considered them as recoverable since the amounts are either fully secured by collateral pledged by the customers or subsequently settled and thus no impairment is considered necessary.

In respect of trade receivables which are past due but not impaired at the respective end of reporting period, the aging analysis is as follows:

	<u>4.30.2011</u>	<u>12.31.2010</u>
	HK\$	HK\$
Overdue by:		
0 - 30 days	38,902,871	13,007,546
Over 30 days	9,523,978	6,580,161
	<u>48,426,849</u>	<u>19,587,707</u>

The trade receivables with a carrying amount of HK\$3,050,960,412 (2010: HK\$2,732,731,024) which are neither past due nor impaired at the reporting date for which the directors of the Company believe that the amounts are considered recoverable.

The settlement terms of trade receivables arising from the business of dealing in securities are two days after trade date. The trade receivables from brokers of HK\$352,514,350 (2010: HK\$128,377,075) represents deposits paid for stock borrowing activities which would be settled once the stock borrowed is returned and the corresponding market value of such stock as at April 30, 2011 amounted to HK\$240,919,500 (2010: HK\$98,112,200). The borrowing period is normally from 1 day to 3 months.

On April 30, 2011 and December 31, 2010, the total market value of securities pledged as collateral in respect of margin clients is approximately HK\$6,307,747,000 and HK\$5,807,861,000 respectively. Interest is charged on margin clients at prime rate basis plus a spread and the Company is allowed to repledge the collateral from margin clients.

## 14. AMOUNTS DUE FROM IMMEDIATE HOLDING COMPANY/FELLOW SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand.

15. BANK BALANCES AND CASH

	<u>4.30.2011</u>	<u>12.31.2010</u>
	HK\$	HK\$
Bank balances		
- general accounts	1,037,810,926	13,475,416
- segregated accounts (note)	4,109,225,946	3,793,744,486
Cash in hand	23,597	111,351
	<u>5,147,060,469</u>	<u>3,807,331,253</u>

Note: From the Company's ordinary business, it receives and holds money deposited by clients in the course of the conduct of the regulated activities. These clients' monies are maintained in one or more segregated bank accounts. The Company has recognised the corresponding account payables to respective clients as the Company does not have a currently enforceable right to offset those payables with the deposits placed.

16. TRADE PAYABLES

	<u>4.30.2011</u>	<u>12.31.2010</u>
	HK\$	HK\$
Trade payables arising from the business of securities dealing and broking:		
Cash clients	3,786,096,780	3,050,565,398
Margin clients	1,172,654,830	1,341,879,809
Clearing house	653,802,585	629,076,124
Brokers	25,513,930	16,433,951
	<u>5,638,068,125</u>	<u>5,037,955,282</u>

Included in cash clients, amount of HK\$1,587,500 (2010: HK\$133,267,175), HK\$385,038,650 (2010: Nil) and HK\$5,403,375 (2010: Nil) represent deposits received for stock lending transactions from the immediate holding company, a fellow subsidiary and individual cash clients respectively, and the total market value of stock as at April 30, 2011 under such transactions amounted to HK\$240,919,500 (2010: HK\$98,112,200).

The settlement terms of trade payables arising from the business of dealing in securities are two days after the trade date. The trade payables to certain margin and cash clients arising from the business of dealing in securities bear variable interest at commercial rates, and are repayable on demand subsequent to settlement date.

As at April 30, 2011, trade payables amounting HK\$4,109,225,946 (2010: HK\$3,793,744,486) were payable to clients in respect of the segregated bank balances received and held for clients in the course of conducting the regulated activities.

17. BANK BORROWINGS

The Company's bank borrowings are denominated in Hong Kong dollars and carry fixed effective interest rates at a range from 0.69% per annum to 1.58% per annum.

18. SHARE CAPITAL

	<u>4.30.2011</u>	<u>12.31.2010</u>
	HK\$	HK\$
Ordinary shares of HK\$1 each		
Authorised:		
At beginning of January 1	3,000,000,000	300,000,000
Increase during the period	-	2,700,000,000
At end of April 30 and December 31, 2010	<u>3,000,000,000</u>	<u>3,000,000,000</u>
Issued and fully paid:		
At beginning of January 1	1,000,000,000	238,000,000
Issued during the period	1,000,000,000	762,000,000
At end of April 30 and December 31, 2010	<u>2,000,000,000</u>	<u>1,000,000,000</u>

The Company increased its authorised share capital from 300,000,000 to 3,000,000,000 shares on April 19, 2010. The Company issued 500,000,000 shares and 262,000,000 shares at HK\$1 each on April 20, 2010 and April 21, 2010 respectively to its immediate holding company.

On April 13, 2011, the Company issued 1,000,000,000 shares at HK\$1 each to its immediate holding company. The proceeds were used for general working capital purpose.

19. OTHER RECEIVABLES, PREPAYMENT AND DEPOSITS

	<u>4.30.2011</u>	<u>12.31.2010</u>
	HK\$	HK\$
Rental and other deposits	9,688,658	11,288,289
Prepayments for operating expenses	10,077,858	4,362,888
Other receivables	7,604,022	4,796,568
	<u>27,370,538</u>	<u>20,447,745</u>

20. OTHER PAYABLES AND ACCRUED CHARGES

	<u>4.30.2011</u> HK\$	<u>12.31.2010</u> HK\$
Commission payable	36,811,224	35,712,615
Salaries and staff bonus accruals	25,915,957	47,707,157
Other payable and accruals	40,200,107	35,686,721
	<u>102,927,288</u>	<u>119,106,493</u>

21. DIVIDEND PAID

	1.1.2011 to <u>4.30.2011</u> HK\$	1.1.2010 to <u>12.31.2010</u> HK\$
Dividends recognised as distribution during the period/year: 2011 Interim - HK\$Nil per share (2010: HK\$1.68)	-	<u>400,000,000</u>

22. OPERATING LEASES COMMITMENTS

At the end of reporting period, the Company had total commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	<u>4.30.2011</u> HK\$	<u>12.31.2010</u> HK\$
Within one year	31,171,519	15,687,049
In the second to fifth year inclusive	<u>101,680,856</u>	<u>53,848,994</u>
	<u>132,852,375</u>	<u>69,536,043</u>

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

## 23. RELATED PARTY TRANSACTIONS

The Company operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities").

In addition, the Company itself is part of a larger group of companies under China Merchants Group Limited and its subsidiaries are referred to as (the "CM Group") which is controlled by the PRC government.

Apart from the transactions with the CM Group disclosed below, the Company has businesses with other government-related entities. The directors of the Company are of the opinion that such transactions with other government related entities are not individually or collectively significant to the Company's operations.

During the period, the Company entered into the following transactions with related parties that are within CM Group:

	1.1.2011 to 4.30.2011 HK\$	1.1.2010 to 4.30.2010 HK\$ (unaudited)
Operating lease rental paid to the intermediate holding company	24,000	-
Stock lending income from immediate holding company	229,708	1,681,395
Stock lending income from a fellow subsidiary	204,201	-
Total commission income from a fellow subsidiary, immediate holding company and fellow subsidiaries	<u>328,912</u>	<u>242,876</u>

Other than disclosed elsewhere, at the end of the reporting period, the Company has the following balances with CM Group:

	1.1.2011 to 4.30.2011 HK\$	1.1.2010 to 12.31.2010 HK\$
Trade receivable from a fellow subsidiary	5,963,608	2,030,555
Trade payable due to immediate holding company	341,837	83,425,523
Trade payable to fellow subsidiaries	3,996,270	81,079
Deposit received from immediate holding company for stock lending transaction	1,587,500	133,267,175
Deposit received from a fellow subsidiary for stock lending transaction	385,038,650	-
Trade receivable from the intermediate holding company that acts as broker (note)	<u>87,813,339</u>	<u>93,462,268</u>

Note: The brokerage commission in relation to the transactions with other brokers are on agency basis, and only net commission amount is being recognised.

Compensation of key management personnel

The compensation of key management personnel represents the director's remuneration as disclosed in note 8.

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