

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



(1) 2013 FINAL RESULTS
(2) 2013 FINAL DIVIDEND
**(3) WAIVER FROM STRICT COMPLIANCE WITH PUBLIC FLOAT
REQUIREMENT UNDER RULE 8.08(1)(a) OF THE LISTING RULES**

RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

Highlights

- Net operating profit before impairment was HK\$660 million and showed an improvement of 23.6% year on year
- Profit attributable to shareholders amounted to HK\$557 million, translating into earnings of HK\$1.28 per share and return on equity of 7.40%
- Net interest income at HK\$1,014 million was 21.2% higher than last year as total assets increased by 5.5% and net interest margin widened 16 basis points year on year to 1.26%. Net interest margin improved from 1.19% in the first half of 2013 to 1.34% in the second half of 2013
- Total loans and advances to customers increased by 15.13% to HK\$ 45,120 million
- With careful management on the exposure to credit risk, asset quality of loans and advances continued to improve with impaired loan ratio at 0.04%, provision coverage of impaired loans and advances at 1,089.83%, and rescheduled loan ratio at 0.58%
- Investments in available-for-sale securities rose by 28.7% year on year to HK\$5,433 million and such investments were mainly in senior debt securities guaranteed or issued by large corporate entities which are listed on the Stock Exchange of Hong Kong
- Total customer deposits increased by 5.4% to HK\$71,165 million
- Total assets increased by 5.5% to HK\$85,188 million. The Bank's net asset value per share (before the payment of the final cash dividend for 2013) was HK\$17.77
- Total capital ratio decreased by 5.02% from 15.34% in December 2012 to 14.57% in December 2013 after the growth in loans and advances to customers, the Tier 1 capital ratio was at 10.82% and the Common Equity Tier 1 capital ratio was also at 10.82%
- The Bank's core business lines and overall financial health are strong and sound, overall asset quality good, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements
- Total dividends for the financial year of 2013, including the interim cash dividend of HK\$0.14 per share paid in September 2013 (2012 interim cash dividend: HK\$0.11 per share), amounted to HK\$0.47 per share (2012 total dividends: HK\$0.46 per share)

The Board of Directors of Chong Hing Bank Limited (the "Bank") are pleased to announce the consolidated results of the Bank and its subsidiaries (the "Group") for the year ended 31 December 2013, together with the comparative figures for the corresponding year in 2012. The financial information in this announcement is based on the audited consolidated financial statements of the Group and does not constitute the Group's statutory accounts for the year ended 31 December 2013.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000	Variance %
Interest income		1,595,667	1,563,820	+2.04
Interest expense		(581,462)	(726,912)	-20.01
Net interest income	4	1,014,205	836,908	+21.18
Fee and commission income		283,196	253,949	+11.52
Fee and commission expenses		(73,263)	(64,584)	+13.44
Net fee and commission income	5	209,933	189,365	+10.86
Net (losses) gains on financial instruments at fair value through profit or loss	6	(22,414)	57,473	-139.00
Net gains on fair value hedge	6	536	1,200	-55.33
Other operating income	7	239,745	237,835	+0.80
Operating expenses	8	(781,575)	(788,591)	-0.89
		660,430	534,190	+23.63
Net (charge) reversal of impairment allowances on loans and advances	16	(35,237)	65,228	-154.02
Net gains (losses) on disposal of property and equipment		6,740	(1,861)	+462.17
Net gains on disposal of available-for-sale securities		1,582	594	+166.33
Net gains on disposal of and fair value adjustments on investment properties	18	4,237	12,206	-65.29
Share of profits of associates		32,103	36,028	-10.89
Profit before taxation		669,855	646,385	+3.63
Taxation	9	(112,437)	(103,045)	+9.11
Profit for the year - attributable to owners of the Bank		557,418	543,340	+2.59
Earnings per share - basic	11	HK1.28	HK\$1.25	+2.59

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

for the year ended 31 December 2013

	2013 HK\$'000	2012 HK\$'000
Profit for the year	<u>557,418</u>	<u>543,340</u>
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation	18,022	4,588
Fair value (losses) gains of available-for-sale securities arising during the year	(4,061)	183,500
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	(1,582)	(594)
Income tax effect relating to disposal of available-for-sale securities	261	98
Income tax effect relating to fair value change of available-for-sale securities	514	(29,914)
Share of other comprehensive income of associates	<u>464</u>	<u>430</u>
Other comprehensive income for the year (net of tax)	<u>13,618</u>	<u>158,108</u>
Total comprehensive income for the year	<u>571,036</u>	<u>701,448</u>
Total comprehensive income attributable to:		
Owners of the Bank	<u>571,036</u>	<u>701,448</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2013

	Notes	2013 HK\$'000	2012 HK\$'000	Variance %
Assets				
Cash and short-term funds	12	16,145,437	17,331,877	-6.85
Placements with banks and other financial institutions maturing between one to twelve months		7,920,502	4,789,513	+65.37
Derivative financial instruments	13	170,135	187,911	-9.46
Financial assets at fair value through profit or loss	14	92,179	1,213,410	-92.40
Available-for-sale securities	14	5,433,241	4,222,217	+28.68
Held-to-maturity securities	14	8,326,722	9,600,020	-13.26
Advances and other accounts	16	45,803,583	42,109,218	+8.77
Tax recoverable		796	-	-
Assets held for sale	17	269,268	-	-
Interests in associates		199,437	182,970	+9.00
Investment properties	18	136,575	135,318	+0.93
Property and equipment	19	635,702	928,380	-31.53
Prepaid lease payments for land	20	2,403	2,423	-0.83
Deferred tax assets	26	1,501	1,502	-0.07
Goodwill	27	50,606	50,606	-
Total assets		85,188,087	80,755,365	+5.49
Liabilities				
Deposits and balances of banks and other financial institutions		1,674,231	1,843,477	-9.18
Financial assets sold under repurchase agreements	21	1,256,657	433,681	+189.77
Deposits from customers	22	71,164,904	67,508,748	+5.42
Certificates of deposit	23	563,003	667,636	-15.67
Derivative financial instruments	13	100,653	248,656	-59.52
Other accounts and accruals		852,430	740,229	+15.16
Current tax liabilities		52,146	16,327	+219.39
Loan capital	24	1,766,436	1,898,957	-6.98
Deferred tax liabilities	26	25,661	23,574	+8.85
Total liabilities		77,456,121	73,381,285	+5.55
Equity attributable to owners of the Bank				
Share capital	25	217,500	217,500	-
Reserves		7,514,466	7,156,580	+5.00
Total equity		7,731,966	7,374,080	+4.85
Total liabilities and equity		85,188,087	80,755,365	+5.49

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Share capital	Share premium	Goodwill	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
<i>Note</i>	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013	217,500	1,542,817	(182)	187,327	1,388,500	26,236	387,000	3,624,882	7,374,080
Profit for the year	-	-	-	-	-	-	-	557,418	557,418
Exchange differences arising on translation	-	-	-	-	-	18,022	-	-	18,022
Fair value losses of available-for-sale securities arising during the year	-	-	-	(4,061)	-	-	-	-	(4,061)
Amount reclassified to the profit or loss upon disposal of available-for-sale securities	-	-	-	(1,582)	-	-	-	-	(1,582)
Income tax effect relating to disposal of available-for-sale securities	-	-	-	261	-	-	-	-	261
Income tax effect relating to fair value change of available-for-sale securities	-	-	-	514	-	-	-	-	514
Share of reserves of associates	-	-	-	464	-	-	-	-	464
Other comprehensive income	-	-	-	(4,404)	-	18,022	-	-	13,618
Total comprehensive (expense) income for the year	-	-	-	(4,404)	-	18,022	-	557,418	571,036
Interim dividend paid for financial year 2013	10	-	-	-	-	-	-	(60,900)	(60,900)
Final dividend paid for financial year 2012	10	-	-	-	-	-	-	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	54,000	(54,000)	-
At 31 December 2013	217,500	1,542,817	(182)	182,923	1,388,500	44,258	441,000	3,915,150	7,731,966

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Note	Share capital HK\$'000	Share premium HK\$'000	Goodwill HK\$'000	Investment revaluation reserve HK\$'000	General reserve HK\$'000	Translation reserve HK\$'000	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2012		217,500	1,542,817	(182)	33,807	1,388,500	21,648	408,000	3,260,642	6,872,732
Profit for the year		-	-	-	-	-	-	-	543,340	543,340
Exchange differences arising on translation		-	-	-	-	-	4,588	-	-	4,588
Fair value gains of available-for-sale securities arising during the year		-	-	-	183,500	-	-	-	-	183,500
Amount reclassified to the profit or loss upon disposal of available-for-sale securities		-	-	-	(594)	-	-	-	-	(594)
Income tax effect relating to disposal of available-for-sale securities		-	-	-	98	-	-	-	-	98
Income tax effect relating to fair value change of available-for-sale securities		-	-	-	(29,914)	-	-	-	-	(29,914)
Share of reserves of associates		-	-	-	430	-	-	-	-	430
Other comprehensive income		-	-	-	153,520	-	4,588	-	-	158,108
Total comprehensive income for the year		-	-	-	153,520	-	4,588	-	543,340	701,448
Interim dividend paid for financial year 2012	10	-	-	-	-	-	-	-	(47,850)	(47,850)
Final dividend paid for financial year 2011	10	-	-	-	-	-	-	-	(152,250)	(152,250)
Release of regulatory reserve to retained profits		-	-	-	-	-	-	(21,000)	21,000	-
At 31 December 2012		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>187,327</u>	<u>1,388,500</u>	<u>26,236</u>	<u>387,000</u>	<u>3,624,882</u>	<u>7,374,080</u>

The retained profits of the Group included retained profits of HK\$82,567,000 (2012: retained profits of HK\$66,564,000) retained by the associates of the Group.

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	2013	2012
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	669,855	646,385
Adjustments for:		
Net interest income	(1,014,205)	(836,908)
Net charge (reversal) of impairment allowances on loans and advances	35,237	(65,228)
Net (gains) losses on disposal of property and equipment	(6,740)	1,861
Net gains on disposal of available-for-sale securities	(1,582)	(594)
Net gains on disposal of and fair value adjustments on investment properties	(4,237)	(12,206)
Share of profits of associates	(32,103)	(36,028)
Net gains on fair value hedge	(536)	(1,200)
Dividend income from investments	(10,991)	(10,799)
Depreciation	54,878	59,209
Release of prepaid lease payments for land	66	66
Exchange adjustments	17,697	818
Operating cash flows before movements in operating assets and liabilities	(292,661)	(254,624)
(Increase) decrease in operating assets:		
Money at call and short notice with original maturity over three months	249,906	(1,738,466)
Exchange fund bills with original maturity over three months	(509,278)	(50,061)
Placements with banks and other financial institutions with original maturity over three months	(2,663,657)	(1,975,578)
Financial assets at fair value through profit or loss	1,121,231	632,179
Advances to customers	(5,947,761)	2,187,309
Advances to banks and other financial institutions	2,164,842	(659,433)
Other accounts	36,851	(254,426)
Increase (decrease) in operating liabilities:		
Deposits and balances of banks and other financial institutions with original maturity over three months	(202,593)	1,003,864
Financial assets sold under repurchase agreements	822,976	13,029
Deposits from customers	3,656,156	2,693,035
Certificates of deposit	(104,633)	(877,926)
Derivative financial instruments	(106,862)	(51,127)
Other accounts and accruals	120,550	127,317
Cash (used in) generated from operations	(1,654,933)	795,092
Hong Kong Profits Tax paid	(51,501)	(99,265)
Overseas tax paid	(23,050)	(16,409)
Interest received	1,309,623	1,219,979
Interest paid	(526,091)	(605,553)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(945,952)	1,293,844

CONSOLIDATED STATEMENT OF CASH FLOWS - continued*for the year ended 31 December 2013*

	2013	2012
	HK\$'000	HK\$'000
INVESTING ACTIVITIES		
Interest received from available-for-sale securities and held-to-maturity securities	302,391	274,151
Dividends received on investments	10,991	10,799
Dividends received from associates	16,100	7,360
Purchase of held-to-maturity securities	(18,738,706)	(20,184,070)
Purchase of available-for-sale securities	(1,375,235)	(2,168,631)
Purchase of property and equipment	(33,142)	(70,105)
Proceeds from redemption of held-to-maturity securities	20,012,004	18,872,132
Proceeds from sale and redemption of available-for-sale securities	2,479	1,748
Proceeds from disposal of property and equipment	8,472	6
Proceeds from disposal of investment properties	3,927	4,316
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>209,281</u>	<u>(3,252,294)</u>
FINANCING ACTIVITIES		
Interest paid on loan capital	(62,006)	(65,225)
Dividends paid	(213,150)	(200,100)
NET CASH USED IN FINANCING ACTIVITIES	<u>(275,156)</u>	<u>(265,325)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,011,827)	(2,223,775)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>14,868,955</u>	<u>17,092,730</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u><u>13,857,128</u></u>	<u><u>14,868,955</u></u>
Represented by:		
Cash and balances with banks and other financial institutions	3,248,318	6,060,810
Money at call and short notice with original maturity of three months or less	9,132,026	7,565,351
Exchange fund bills with original maturity of three months or less	300,000	499,995
Placements with banks and other financial institutions with original maturity of three months or less	1,776,448	1,309,116
Deposits and balances of banks and other financial institutions with original maturity of three months or less	(599,664)	(566,317)
	<u><u>13,857,128</u></u>	<u><u>14,868,955</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

1. BASIS OF PREPARATION

The financial information in this final results announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2013 but is derived from those financial statements.

The accounting policies and methods of computation used in the preparation of these final results are consistent with those adopted in the preparation of the Group's annual statutory financial statements for the year ended 31 December 2012 except that the Group has applied the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Application of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA, as follows:

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

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

Amendments to HKFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKFRS 7 "Disclosures - Offsetting Financial Assets and Financial Liabilities" for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

- (a) recognised financial instruments that are set off in accordance with HKAS 32 "Financial Instruments: Presentation"; and
- (b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The amendments to HKFRS 7 have been applied retrospectively. The application of the amendments has had no material impact on the amounts reported in the Group's consolidated financial information but has resulted in more disclosures about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

1. BASIS OF PREPARATION - continued

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial information.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income. Upon the adoption of the amendments to HKAS 1, the Group’s “consolidated statement of comprehensive income” is renamed as the “consolidated statement of profit or loss and other comprehensive income” and the “consolidated income statement” is renamed as the “consolidated statement of profit or loss”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Comparative Amounts

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ²
HKFRS 9	Financial Instruments ³
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets ¹
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting ¹

¹ Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.

² Effective for annual periods beginning on or after 1 July 2014, except as disclosed below. Early application is permitted.

³ Available for application - the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.

Annual Improvements to HKFRSs 2010-2012 Cycle

The “Annual Improvements to HKFRSs 2010-2012 Cycle” include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 2 (i) change the definitions of “vesting condition” and “market condition”; and (ii) add definitions for “performance condition” and “service condition” which were previously included within the definition of “vesting condition”. The amendments to HKFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

The amendments to HKFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of HKFRS 9 or HKAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to HKFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

The amendments to HKFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have “similar economic characteristics”; and (ii) clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE - continued

Annual Improvements to HKFRSs 2010-2012 Cycle - continued

The amendments to the basis for conclusions of HKFRS 13 clarify that the issue of HKFRS 13 and consequential amendments to HKAS 39 and HKFRS 9 did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.

The amendments to HKAS 16 and HKAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to HKAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors of the Bank do not anticipate that the application of the amendments included in the “Annual Improvements to HKFRSs 2010-2012 Cycle” will have a material effect on the Group’s consolidated financial information.

Annual Improvements to HKFRSs 2011-2013 Cycle

The “Annual Improvements to HKFRSs 2011-2013 Cycle” include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial information of the joint arrangement itself.

The amendments to HKFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, HKAS 39 or HKFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within HKAS 32.

The amendments to HKAS 40 clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The directors of the Bank do not anticipate that the application of the amendments included in the “Annual Improvements to HKFRSs 2011-2013 Cycle” will have a material effect on the Group’s consolidated financial information.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE - continued

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE - continued

Amendments to HKAS 19 Defined Benefit Plans: Employee Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the Bank do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial information as the defined benefit plan had no contribution made by employees or third parties.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities

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

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

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

The directors of the Bank do not anticipate that the application of these amendments to HKAS 36 will have a significant impact on the Group's consolidated financial information.

Amendments to HKAS 39 Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Bank do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial information as the Group does not have any derivatives that are subject to novation.

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

3. SEGMENT INFORMATION

(a) Operating segments

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(i) Operating segment information for the year ended 31 December 2013 is presented below:

Operating segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	1,040,118	552,385	3,164	-	-	1,595,667
Interest expense to external customers	(491,452)	(90,010)	-	-	-	(581,462)
Inter-segment interest income (Note 1)	235,732	-	-	-	(235,732)	-
Inter-segment interest expense (Note 1)	-	(235,732)	-	-	235,732	-
Net interest income	784,398	226,643	3,164	-	-	1,014,205
Fee and commission income	151,767	-	131,429	-	-	283,196
Fee and commission expenses	(72,881)	-	(382)	-	-	(73,263)
Net gains (losses) on financial instruments at fair value through profit or loss	585	(22,965)	-	(34)	-	(22,414)
Net gains on fair value hedge	-	536	-	-	-	536
Other operating income (Note 2)	94,411	104,410	-	39,373	-	238,194
Segment revenue						
Total operating income	958,280	308,624	134,211	39,339	-	1,440,454
Comprising:						
- segment revenue from external customers	722,548	544,356	134,211	39,339		
- inter-segment transactions	235,732	(235,732)	-	-		
Operating expenses (Note 3)	(437,781)	(29,989)	(66,087)	(11,075)	-	(544,932)
Impairment allowances on loans and advances	(35,237)	-	-	-	-	(35,237)
Net gains (losses) on disposal of property and equipment	6,750	-	-	(10)	-	6,740
Net gains on disposal of available-for-sale securities	-	-	-	1,582	-	1,582
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	4,237	-	4,237
Segment profit	492,012	278,635	68,124	34,073	-	872,844
Unallocated corporate expenses						(236,643)
Unallocated corporate income						1,551
						637,752
Share of profits of associates						32,103
Profit before taxation						669,855

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

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

3. The difference between the operating expenses in the consolidated statement of profit or loss and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

(i) Operating segment information for the year ended 31 December 2013 is presented below: - continued

Operating segment assets and liabilities as at 31 December 2013

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Consolidated HK\$'000
Assets					
Segment assets	49,053,404	34,735,973	239,241	448,102	84,476,720
Interests in associates					199,437
Unallocated corporate assets					511,930
Consolidated total assets					<u>85,188,087</u>
Liabilities					
Segment liabilities	71,427,805	5,443,608	135,351	94,297	77,101,061
Unallocated corporate liabilities					355,060
Consolidated total liabilities					<u>77,456,121</u>

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

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities business HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure during the year	16,733	318	250	130	15,711	33,142
Depreciation	35,417	1,291	3,385	354	14,431	54,878
Release of prepaid lease payments for land	<u>66</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>66</u>

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

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

Operating segment revenues and results

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

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

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

3. The difference between the operating expenses in the consolidated statement of profit or loss and the operating expenses in the operating segments is the unallocated corporate expenses.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

3. SEGMENT INFORMATION - continued

(a) Operating segments - continued

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

Operating segment assets and liabilities as at 31 December 2012

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

3. SEGMENT INFORMATION - continued

(b) Geographical information

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

Details of geographical information are set out below:

	2013						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non-current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,314,319	569,639	82,966,678	76,813,803	18,064,831	1,009,636	29,579
Macau and Shantou, Mainland China	110,098	90,267	1,569,851	591,861	477,982	14,486	3,056
America	17,588	9,949	651,558	50,457	16,913	535	507
Total	<u>1,442,005</u>	<u>669,855</u>	<u>85,188,087</u>	<u>77,456,121</u>	<u>18,559,726</u>	<u>1,024,657</u>	<u>33,142</u>
	2012						
	Total operating income HK\$'000	Profit before taxation HK\$'000	Total assets HK\$'000	Total liabilities HK\$'000	Total contingent liabilities and commitments HK\$'000	Non-current assets HK\$'000	Capital expenditure during the year HK\$'000
Hong Kong	1,220,635	569,471	78,627,449	72,677,568	18,649,141	1,286,546	68,057
Macau and Shantou, Mainland China	85,984	67,172	1,533,533	631,873	376,181	12,915	2,004
America	16,162	9,742	594,383	71,844	15,215	170	44
Total	<u>1,322,781</u>	<u>646,385</u>	<u>80,755,365</u>	<u>73,381,285</u>	<u>19,040,537</u>	<u>1,299,631</u>	<u>70,105</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

4. NET INTEREST INCOME

	2013 HK\$'000	2012 HK\$'000
Interest income		
Balances and placements with banks and other financial institutions	264,401	317,724
Investments in securities	299,615	293,085
Loans and advances	1,014,332	890,160
Interest rate swaps	<u>17,319</u>	<u>62,851</u>
	<u>1,595,667</u>	<u>1,563,820</u>
Interest expense		
Deposits and balances of banks and other financial institutions	(9,312)	(21,217)
Deposits from customers	(491,389)	(567,021)
Financial assets sold under repurchase agreements	(3,028)	(4,640)
Certificates of deposit	(4,830)	(31,417)
Loan capital in issue	(63,725)	(66,910)
Interest rate swaps	<u>(9,178)</u>	<u>(35,707)</u>
	<u>(581,462)</u>	<u>(726,912)</u>
Net interest income	<u>1,014,205</u>	<u>836,908</u>
Included within interest income		
Interest income on impaired loans and advances	<u>238</u>	<u>374</u>

Included within interest income and interest expense are HK\$1,580,167,000 (2012: HK\$1,484,940,000) and HK\$572,284,000 (2012: HK\$691,205,000) earned and incurred from financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in debt securities of HK\$299,615,000 (2012: HK\$293,085,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

5. NET FEE AND COMMISSION INCOME

	2013 HK\$'000	2012 HK\$'000
Fee and commission income		
Securities dealings	131,429	116,755
Credit lines	16,325	15,090
Trade finance	13,205	12,067
Credit card services	76,947	68,880
Agency services	29,153	25,085
Others	<u>16,137</u>	<u>16,072</u>
Total fee and commission income	283,196	253,949
Less: Fee and commission expenses	<u>(73,263)</u>	<u>(64,584)</u>
Net fee and commission income	<u>209,933</u>	<u>189,365</u>
of which:		
Net fee and commission, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
- fee income	114,121	104,855
- fee expenses	<u>(70,665)</u>	<u>(62,511)</u>
	<u>43,456</u>	<u>42,344</u>

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

	2013 HK\$'000	2012 HK\$'000
Net (losses) gains on financial instruments at fair value through profit or loss		
- designated at fair value through profit or loss (<i>Note 1</i>)	(75,739)	(28,721)
- held for trading (<i>Note 2</i>)	<u>53,325</u>	<u>86,194</u>
	<u>(22,414)</u>	<u>57,473</u>
Net gains on fair value hedge		
- net losses on hedged items attributable to the hedged risk	(22,829)	(23,068)
- net gains on hedging instruments	<u>23,365</u>	<u>24,268</u>
	<u>536</u>	<u>1,200</u>

Notes: 1. The net losses on financial instruments designated at fair value through profit or loss in both years were primarily attributable to the changes in fair value of the structured products and the convertible bonds.

2. The net gains mainly related to foreign currency forward contracts, interest rate swaps and a cross-currency interest rate swap held for trading. Details of the outstanding contracts are set out in note 13.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

7. OTHER OPERATING INCOME

	2013 HK\$'000	2012 HK\$'000
Dividend income		
- Listed investments	6,136	6,214
- Unlisted investments	4,855	4,585
Net exchange gains and net gains from foreign currency contracts	104,410	108,228
Gross rents from investment properties	16,979	16,447
Less: Outgoings	(1,034)	(1,206)
Net rental income	15,945	15,241
Safe deposit box rentals	42,461	36,136
Insurance underwriting premium less claims and commission expense	12,436	18,100
Other banking services income	48,213	45,117
Others	5,289	4,214
	<u>239,745</u>	<u>237,835</u>

8. OPERATING EXPENSES

	2013 HK\$'000	2012 HK\$'000
Auditor's remuneration	4,607	4,304
Staff costs (including directors' emoluments)		
- Salaries and other costs	432,385	423,522
- Retirement benefits scheme contributions	31,655	30,846
Total staff costs	464,040	454,368
Depreciation	54,878	59,209
Release of prepaid lease payments for land	66	66
Premises and equipment expenses, excluding depreciation / release of prepaid lease payments for land		
- Rentals and rates for premises	42,299	44,030
- Others	23,313	26,367
Other operating expenses	192,372	200,247
	<u>781,575</u>	<u>788,591</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$35,007,000 (2012: HK\$37,220,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

9. TAXATION

	2013 HK\$'000	2012 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- Current year	88,204	84,641
- Over provision in prior years	<u>(1,728)</u>	<u>(229)</u>
	86,476	84,412
Overseas taxation		
- Current year	21,390	16,815
- Under (over) provision in prior years	1,708	(402)
Deferred tax (<i>Note 26</i>)	<u>2,863</u>	<u>2,220</u>
	<u>112,437</u>	<u>103,045</u>

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

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

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

	2013 HK\$'000	2012 HK\$'000
Profit before taxation	<u>669,855</u>	<u>646,385</u>
Tax at the domestic income tax rate of 16.5% (2012: 16.5%)	110,526	106,654
Tax effect of share of profits of associates	(5,297)	(5,945)
Tax effect of expenses not deductible for tax purpose	68	64
Tax effect of income not taxable for tax purpose	(2,546)	(4,881)
Over provision in prior years	(20)	(631)
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	6,958	5,350
Others	<u>2,748</u>	<u>2,434</u>
Tax charge for the year	<u>112,437</u>	<u>103,045</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

10. DIVIDENDS

	2013 HK\$'000	2012 HK\$'000
Dividends recognised as distribution during the year:		
2013 Interim - HK\$0.14 (2012: 2012 Interim - HK\$0.11) per share	60,900	47,850
2012 Final - HK\$0.35 (2012: 2011 Final - HK\$0.35) per share	<u>152,250</u>	<u>152,250</u>
	<u>213,150</u>	<u>200,100</u>

The final dividend of HK\$0.33 per share, totalling HK\$143,550,000, in respect of the current financial year (2012: HK\$0.35 per share, totalling HK\$152,250,000) has been proposed by the directors of the Bank and is subject to approval by the shareholders in the next annual general meeting.

At an extraordinary general meeting on 20 December 2013, a special interim dividend of HK\$4.5195 per share, totaling HK\$1,965,982,500 to shareholders on the Bank's register of members as of 4 February 2014 was approved. The conditions for payment of the special interim dividend were satisfied on 5 February 2014, when the Partial Disposal, as defined and stipulated in the joint announcement made by the Bank, the ultimate holding company and Guangzhou Yue Xiu Holding Limited on 25 October 2013, became unconditional, and on 19 February 2014 when the completion of the Property Transfer, as defined and stipulated in this joint announcement, took place. The special interim dividend of HK\$4.5195 per share was paid on 20 February 2014. Further details of the Property Transfer are set out in note 30.

11. EARNINGS PER SHARE - BASIC

The calculation of basic earnings per share is based on the profit attributable to owners of the Bank of HK\$557,418,000 (2012: HK\$543,340,000) and on 435,000,000 (2012: 435,000,000) ordinary shares in issue during the year.

No diluted earnings per share is presented as no potential ordinary shares were in issue during the year ended 31 December 2013 (2012: nil).

12. CASH AND SHORT-TERM FUNDS

	2013 HK\$'000	2012 HK\$'000
Cash and balances with banks and other financial institutions	3,248,318	6,060,810
Money at call and short notice	11,789,323	10,472,554
Exchange fund bills	<u>1,107,796</u>	<u>798,513</u>
	<u>16,145,437</u>	<u>17,331,877</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

13. DERIVATIVE FINANCIAL INSTRUMENTS

	2013			2012		
	Notional amount HK\$'000	Fair values		Notional amount HK\$'000	Fair values	
		Assets HK\$'000	Liabilities HK\$'000		Assets HK\$'000	Liabilities HK\$'000
Derivatives held for trading						
- Foreign currency forward contracts	5,779,843	10,078	42,011	6,037,758	16,584	21,380
- Interest rate swaps	120,000	984	11,059	796,280	4,562	95,192
- Cross-currency interest rate swap	-	-	-	36,040	-	1,582
Derivatives designated as hedging instruments						
- Interest rate swaps	6,700,061	159,073	42,499	5,286,864	166,765	120,792
- Cross-currency interest rate swaps	233,306	-	5,084	233,306	-	9,710
		<u>170,135</u>	<u>100,653</u>		<u>187,911</u>	<u>248,656</u>

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

The remaining maturity of interest rate swaps held for trading ranged from 1 to 7 years (2012: 1 to 8 years).

Of the interest rate swaps held for trading with a notional amount of HK\$120,000,000 (2012: HK\$796,280,000) as at 31 December 2013, the notional amount of HK\$35,000,000 (2012: HK\$60,000,000) was floating-to-fixed rate swaps, the remaining notional amount of HK\$85,000,000 (2012: HK\$736,280,000) was fixed-to-floating rate swaps.

The cross-currency interest rate swap held for trading as at 31 December 2012 was a floating-to-floating rate swap paying Japanese yen receiving United States dollars.

The credit risk weighted amounts of derivative exposures calculated based on the Banking (Capital) Rules of the Hong Kong Banking Ordinance are as follows:

	2013			2012		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk
			weighted amount HK\$'000			weighted amount HK\$'000
Exchange rate contracts	6,013,149	10,078	19,515	6,307,104	16,584	22,865
Interest rate contracts	6,820,061	160,057	51,237	6,083,144	171,327	53,978
		<u>170,135</u>	<u>70,752</u>		<u>187,911</u>	<u>76,843</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

13. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Replacement cost is the cost which would be incurred by the Group if it was required to enter into another contract to replace the existing transaction or existing contract with another counterparty with substantially the same economic consequences for the Group and is calculated by marking-to-market the existing transaction or contract. If the resultant value is positive for the Group, the replacement cost shall be the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, the replacement cost shall be zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised in the statement of financial position at fair value.

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

Fair value hedge of fixed-rate bonds

The Group designates certain interest rate swaps and cross-currency interest rate swaps as fair value hedges of available-for-sale debt securities with carrying amounts of HK\$5,182,952,000 (2012: HK\$3,990,868,000) as at 31 December 2013. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping these fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and cross-currency interest rate swaps and the corresponding fixed-rate bonds have the same terms. The management of the Group considers that the interest rate swaps and cross-currency interest rate swaps are highly effective hedging instruments. The remaining maturity of these interest rate swaps, cross-currency interest rate swaps and debt securities ranged from 1 to 10 years.

During the years ended 31 December 2013 and 2012, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and, as a result, both the losses in fair value of the bonds of HK\$157,671,000 (2012: gains of HK\$25,349,000) and gains in fair value of the interest rate swaps of HK\$153,490,000 (2012: losses of HK\$25,759,000) and gains in fair value of cross-currency interest rate swaps of HK\$4,150,000 (2012: gains of HK\$478,000) were included in the consolidated statement of profit or loss.

Fair value hedge of subordinated note issued

The Group designates an interest rate swap as fair value hedge of the interest rate movement of the US\$225 million subordinated note issued (see note 24 for details). The purpose is to minimise its exposure to fair value changes of its fixed-rate note by swapping fixed-rate note from fixed rates to floating rates. The interest rate swap and the hedged subordinated note have the same terms and management of the Group considers that the interest rate swap is a highly effective hedging instrument.

The hedge was effective in hedging the fair value exposure to interest rate movements and as a result, both the decrease in fair value of the note of HK\$134,842,000 (2012: increase in fair value of HK\$48,417,000) and losses in fair value of the interest rate swap of HK\$134,275,000 (2012: gains of HK\$49,549,000) were included in the consolidated statement of profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

14. INVESTMENTS IN SECURITIES

	Financial assets at fair value through profit or loss		Available- for-sale securities HK\$'000	Held-to- maturity securities HK\$'000	Total HK\$'000
	Held for trading HK\$'000	Designated at fair value HK\$'000			
2013					
Equity securities:					
Listed in Hong Kong	211	–	199,680	–	199,891
Listed overseas	–	–	7,713	–	7,713
	<u>211</u>	<u>–</u>	<u>207,393</u>	<u>–</u>	<u>207,604</u>
Unlisted	–	–	36,525	–	36,525
	<u>211</u>	<u>–</u>	<u>243,918</u>	<u>–</u>	<u>244,129</u>
Debt securities:					
Certificates of deposit	–	–	–	4,675,621	4,675,621
Convertible bonds	–	91,968	–	–	91,968
Other debt securities - Unlisted	–	–	5,189,323	3,651,101	8,840,424
	<u>–</u>	<u>91,968</u>	<u>5,189,323</u>	<u>8,326,722</u>	<u>13,608,013</u>
Total:					
Listed in Hong Kong	211	–	199,680	–	199,891
Listed overseas	–	–	7,713	–	7,713
Unlisted	–	91,968	5,225,848	8,326,722	13,644,538
	<u>211</u>	<u>91,968</u>	<u>5,433,241</u>	<u>8,326,722</u>	<u>13,852,142</u>
Market value of listed securities:					
Listed in Hong Kong	211	–	199,680	–	199,891
Listed overseas	–	–	7,713	–	7,713
	<u>211</u>	<u>–</u>	<u>207,393</u>	<u>–</u>	<u>207,604</u>
As analysed by issuing entities:					
Central governments and central banks	–	–	–	7,627	7,627
Public sector entities	–	–	55,029	176,769	231,798
Banks and other financial institutions	43	–	363,505	6,619,205	6,982,753
Corporate entities	168	91,968	5,010,154	1,523,121	6,625,411
Others	–	–	4,553	–	4,553
	<u>211</u>	<u>91,968</u>	<u>5,433,241</u>	<u>8,326,722</u>	<u>13,852,142</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

14. INVESTMENTS IN SECURITIES - continued

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

14. INVESTMENTS IN SECURITIES - continued

For the equity securities classified as available-for-sale financial instruments, impairment losses accumulated through the years of HK\$44,740,000 (2012: HK\$44,879,000) has been provided by the Group.

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

Unlisted equity securities classified as available-for-sale held by the Group amounting to HK\$36,454,000 (2012: HK\$35,571,000) are measured at cost less impairment. No impairment has been recognised.

Certain held-to-maturity certificates of deposit of HK\$17,060,000 (2012: HK\$17,054,000) held by the San Francisco Branch of the Bank have been pledged to the State of California of the United States of America in compliance with the requirements of the California Financial Code.

Debt securities classified as held-to-maturity amounting to HK\$7,627,000 (2012: HK\$3,382,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of the People's Republic of China (the "PRC").

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

The certificates of deposit classified as held-to-maturity securities held by the Group are mainly issued by banks from the PRC, Japan and Hong Kong. Of the above, held-to-maturity certificates of deposit amounting to HK\$2,474,632,000 (2012: HK\$1,731,693,000) and held-to-maturity debt securities amounting to HK\$256,467,000 (2012: HK\$900,850,000) held by the Group are credit exposures to the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

15. TRANSFER OF FINANCIAL ASSETS

The following were the Group's debt securities classified as held-to-maturity and available-for-sale as at 31 December 2013 and 31 December 2012 that were transferred to an entity with terms to repurchase these debt securities at agreed dates and prices. As the Group has not transferred the significant risks and rewards relating to these debt securities to the entity, the full carrying amount of these debt securities continued to be recognised. The cash received on the transfer was reported as liabilities under "Financial assets sold under repurchase agreements" (see note 21). The transferred debt securities serve as collateral to secure these liabilities. During the covered period, the legal title of the debt securities are transferred to the counterparty entity and there is no restriction for the counterparty entity to sell or repledge the collateral. These debt securities are either measured at amortised cost or carried at fair value in the statements of financial position.

	As at 31 December 2013		
	Available -for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	1,287,098	156,463	1,443,561
Carrying amount of associated liabilities (<i>Note 21</i>)	<u>1,115,597</u>	<u>141,060</u>	<u>1,256,657</u>

	As at 31 December 2012		
	Available -for-sale debt securities HK\$'000	Held-to- maturity debt securities HK\$'000	Total HK\$'000
Carrying amount of transferred assets	393,490	117,621	511,111
Carrying amount of associated liabilities (<i>Note 21</i>)	<u>326,687</u>	<u>106,994</u>	<u>433,681</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

16. ADVANCES AND OTHER ACCOUNTS

	2013 HK\$'000	2012 HK\$'000
Advances to customers		
Bills receivable	406,924	373,401
Trade bills	2,164,983	453,669
Other advances to customers	42,548,307	38,365,119
	<u>45,120,214</u>	<u>39,192,189</u>
Interest receivable	215,923	232,270
Impairment allowances		
- Individually assessed	(14,755)	(24,054)
- Collectively assessed	(189,425)	(164,506)
	<u>45,131,957</u>	<u>39,235,899</u>
Advances to banks and other financial institutions	–	2,164,842
	<u>45,131,957</u>	<u>41,400,741</u>
Other accounts	671,626	708,477
	<u>45,803,583</u>	<u>42,109,218</u>

Included in the “Other Accounts” of the Group are variation margin of HK\$20,554,000 (2012: HK\$94,479,000) deposited in banks for certain interest rate swaps, foreign currency forward contracts and repurchase agreements and an amount of approximately HK\$271,049,000 (2012: HK\$246,484,000) placed as reserve funds with the financial institutions in the PRC by the Shantou Branch of the Bank. Among which, HK\$55,791,000 (2012: HK\$64,861,000) and HK\$44,157,000 (2012: HK\$13,699,000) are the mandatory reserve deposits and surplus reserve deposits placed with the People’s Bank of China, respectively. The mandatory reserve deposits are not available for the Group’s daily operation; HK\$171,101,000 (2012: HK\$167,924,000) are the fixed deposits placed with other financial institutions in the PRC in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the PRC.

The remaining balance of “Other Accounts” of the Group amounting to HK\$380,023,000 (2012: HK\$367,514,000) mainly included account receivables from HKSCC and brokerage clients in relation to securities dealing of HK\$208,206,000 (2012: HK\$195,996,000).

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

16. ADVANCES AND OTHER ACCOUNTS - continued

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance at 1 January 2013	24,054	164,506	188,560
Charge of impairment allowances (net)	10,437	24,800	35,237
- Increase in impairment allowances	20,726	24,800	45,526
- Amounts reversed	(10,289)	–	(10,289)
Amounts written off	(20,055)	–	(20,055)
Recoveries of advances written off in previous years	557	–	557
Unwinding effect of discount rate	(238)	–	(238)
Exchange difference	–	119	119
Balance at 31 December 2013	14,755	189,425	204,180
Balance at 1 January 2012	40,553	172,015	212,568
Reversal of impairment allowances (net)	(57,513)	(7,715)	(65,228)
- Increase in impairment allowances	6,214	–	6,214
- Amounts reversed	(63,727)	(7,715)	(71,442)
Amounts written off	(3,709)	–	(3,709)
Recoveries of advances written off in previous years	45,097	–	45,097
Unwinding effect of discount rate	(374)	–	(374)
Exchange difference	–	206	206
Balance at 31 December 2012	24,054	164,506	188,560

Details of the impaired loans are as follows:

	2013 HK\$'000	2012 HK\$'000
Gross impaired loans	18,734	24,194
Less: Impairment allowances under individual assessment	(14,755)	(24,054)
Net impaired loans	3,979	140
Gross impaired loans as a percentage of gross advances to customers	0.04%	0.06%
Market value of collateral pledged	14,081	76,635

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

17. ASSETS HELD FOR SALE

On 25 October 2013, the Group entered into a sale and purchase agreement with the ultimate holding company for disposal of a property in Hong Kong previously held for own use. Details of disposal are set out in note 30. As at 31 December 2013, the directors of the Bank considered that it was highly probable that the sale would be completed and qualify for recognition as a completed sale within one year. The consideration in the sales and purchase agreement was HK\$2,230 million which exceeds the carrying value of the property as at 31 December 2013.

The carrying amount of assets held for sale comprises:

	2013 HK\$'000	2012 HK\$'000
Leasehold land in Hong Kong		
Held on long-term lease (over 50 years unexpired)	82,271	–
Leasehold properties (building) in Hong Kong		
Held on long-term lease (over 50 years unexpired)	186,997	–
	269,268	–

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

18. INVESTMENT PROPERTIES

	2013	2012
	HK\$'000	HK\$'000
At 1 January	135,318	127,171
Net increase in fair value recognised in profit or loss	1,910	9,390
Disposals	(1,600)	(1,500)
Exchange adjustments	947	257
At 31 December	<u>136,575</u>	<u>135,318</u>

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

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

	2013	2012
	HK\$'000	HK\$'000
Net gains on disposal of investment properties	2,327	2,816
Net gains on fair value adjustments on investment properties	1,910	9,390
	<u>4,237</u>	<u>12,206</u>

Investment properties owned by the Group were revalued at 31 December 2013 by adopting the direct comparison approach and with reference to the recent transactions for similar premises by Vigers Hong Kong Limited, independent professionally qualified valuers. The fair value is mainly arrived at by reference to comparable market transactions for similar properties.

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

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties was the unit sale rate taking into account of time, location and individual factors such as size and levels of building, which ranged from HK\$2,500 to HK\$16,920 per square feet. A decrease in the unit sale rate would result in decrease in fair value measurement of the investment properties by the same percentage decrease and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

18. INVESTMENT PROPERTIES - continued

In estimating the fair value of the Group's investment properties, the management of the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management of the Group engages third party qualified valuers to perform the valuation of the Group's investment properties. At the end of each reporting period, the directors of the Bank works closely with the qualified external valuers to establish and determine the appropriate valuation techniques and inputs for Level 2 and Level 3 fair value measurement. The management of the Group will first consider and adopt Level 2 inputs where inputs can be derived from observable quoted prices in the active market. When Level 2 inputs are not available, the management of the Group will adopt valuation techniques that include Level 3 inputs. Where there is a material change in the fair value of the assets, the causes of the fluctuations will be reported to the directors of the Bank.

Information about the valuation techniques and inputs in determining the fair value of the Group's investment properties are disclosed above.

Investment properties are classified as Level 3 under fair value hierarchy as at 31 December 2013. There were no transfers into or out of Level 3 during the year.

The investment properties are rented out under operating leases.

The carrying amount of investment properties of the Group comprises:

	2013	2012
	HK\$'000	HK\$'000
Leasehold properties		
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	102,300	101,990
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	34,275	33,328
	<u>136,575</u>	<u>135,318</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

19. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
COST				
At 1 January 2013	575,421	375,285	546,606	1,497,312
Additions	–	6,675	26,467	33,142
Disposals	(419)	(141)	(7,726)	(8,286)
Exchange adjustments	–	406	79	485
Reclassified to assets held for sale	(83,039)	(215,122)	–	(298,161)
At 31 December 2013	491,963	167,103	565,426	1,224,492
ACCUMULATED DEPRECIATION				
At 1 January 2013	101,005	62,214	405,713	568,932
Depreciation	10,974	7,526	36,378	54,878
Eliminated on disposals	(99)	(96)	(6,359)	(6,554)
Exchange adjustments	–	359	68	427
Reclassified to assets held for sale	(768)	(28,125)	–	(28,893)
At 31 December 2013	111,112	41,878	435,800	588,790
CARRYING AMOUNTS				
At 31 December 2013	380,851	125,225	129,626	635,702
At 1 January 2013	474,416	313,071	140,893	928,380
COST				
At 1 January 2012	562,418	372,392	505,334	1,440,144
Additions	13,003	2,893	54,209	70,105
Disposals	–	–	(13,308)	(13,308)
Exchange adjustments	–	–	371	371
At 31 December 2012	575,421	375,285	546,606	1,497,312
ACCUMULATED DEPRECIATION				
At 1 January 2012	90,078	53,963	377,135	521,176
Depreciation	10,927	8,251	40,031	59,209
Eliminated on disposals	–	–	(11,441)	(11,441)
Exchange adjustments	–	–	(12)	(12)
At 31 December 2012	101,005	62,214	405,713	568,932
CARRYING AMOUNTS				
At 31 December 2012	474,416	313,071	140,893	928,380

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

Leasehold land	Over the lease term of leasehold land ranging from 33 to 929 years
Buildings	Over its estimated useful life of 50 years or the remaining lease period of the land which it is situated ranging from 33 to 929 years, whichever is the shorter
Equipment	10% - 20%

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

19. PROPERTY AND EQUIPMENT - continued

The carrying amounts of leasehold land shown above comprise:

	2013	2012
	HK\$'000	HK\$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	40,586	123,565
Held on medium-term lease (10 - 50 years unexpired)	339,355	349,912
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 - 50 years unexpired)	<u>910</u>	<u>939</u>
	<u>380,851</u>	<u>474,416</u>

The carrying amounts of buildings shown above comprise:

	2013	2012
	HK\$'000	HK\$'000
Leasehold properties (building)		
Held in Hong Kong on long-term lease (over 50 years unexpired)	9,565	193,771
Held in Hong Kong on medium-term lease (10-50 years unexpired)	108,911	112,480
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	<u>6,749</u>	<u>6,820</u>
	<u>125,225</u>	<u>313,071</u>

20. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2013	2012
	HK\$'000	HK\$'000
COST		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	<u>2,850</u>	<u>2,850</u>
Net book value at 1 January	2,423	2,483
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	<u>46</u>	<u>6</u>
Net book value at 31 December	<u>2,403</u>	<u>2,423</u>
Analysed as:		
Current portion	66	66
Non-current portion	<u>2,337</u>	<u>2,357</u>
Total	<u>2,403</u>	<u>2,423</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

21. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2013 HK\$'000	2012 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale (<i>Note 15</i>)	1,115,597	326,687
Held-to-maturity (<i>Note 15</i>)	<u>141,060</u>	<u>106,994</u>
	<u><u>1,256,657</u></u>	<u><u>433,681</u></u>

As at 31 December 2013, debt securities which are classified as available-for-sale and held-to-maturity with carrying amount of HK\$1,287,098,000 (2012: HK\$393,490,000) and HK\$156,463,000 (2012: HK\$117,621,000) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

22. DEPOSITS FROM CUSTOMERS

	2013 HK\$'000	2012 HK\$'000
Demand deposits and current accounts	5,891,753	5,238,918
Savings deposits	22,064,051	21,557,659
Time, call and notice deposits	<u>43,209,100</u>	<u>40,712,171</u>
	<u><u>71,164,904</u></u>	<u><u>67,508,748</u></u>

23. CERTIFICATES OF DEPOSIT

The Group has issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$563,003,000 as at 31 December 2013 (2012: HK\$667,636,000). Certificates of deposit bear interest at rates between 1.24585% to 1.65% per annum and will mature in 2014. All certificates of deposit issued are not secured by any collateral.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

24. LOAN CAPITAL

	2013 HK\$'000	2012 HK\$'000
US\$225 million fixed rate subordinated note due 2020 under fair value hedge (after adjustment of hedged interest rate risk) (Notes (a) & (b))	<u>1,766,436</u>	<u>1,898,957</u>

Notes:

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

(b) The subordinated note issued is not secured by any collateral.

25. SHARE CAPITAL

	2013 & 2012 HK\$'000
Authorised: 600,000,000 shares of HK\$0.50 each	<u>300,000</u>
Issued and fully paid: 435,000,000 shares of HK\$0.50 each	<u>217,500</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

26. DEFERRED TAXATION

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

	2013 HK\$'000	2012 HK\$'000
Deferred tax assets	1,501	1,502
Deferred tax liabilities	<u>(25,661)</u>	<u>(23,574)</u>
	<u>(24,160)</u>	<u>(22,072)</u>

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

	Accelerated tax depreciation HK\$'000	Collectively assessed impairment allowance HK\$'000	Investment properties HK\$'000	Revaluation of available- for-sale securities HK\$'000	Remeasurement of retirement benefits HK\$'000	Total HK\$'000
At 1 January 2013	(11,387)	26,531	(2,909)	(32,613)	(1,694)	(22,072)
(Charge) credit to profit or loss for the year (<i>Note 9</i>)	(4,188)	3,253	(1,928)	–	–	(2,863)
Credit to other comprehensive income for the year	–	–	–	775	–	775
At 31 December 2013	<u>(15,575)</u>	<u>29,784</u>	<u>(4,837)</u>	<u>(31,838)</u>	<u>(1,694)</u>	<u>(24,160)</u>
At 1 January 2012	(10,540)	27,869	(2,874)	(2,797)	(1,694)	9,964
Charge to profit or loss for the year (<i>Note 9</i>)	(847)	(1,338)	(35)	–	–	(2,220)
Charge to other comprehensive income for the year	–	–	–	(29,816)	–	(29,816)
At 31 December 2012	<u>(11,387)</u>	<u>26,531</u>	<u>(2,909)</u>	<u>(32,613)</u>	<u>(1,694)</u>	<u>(22,072)</u>

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on profits distributed by the Bank's PRC branch from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial information in respect of temporary differences attributable to accumulated profits of the PRC branch amounting to HK\$274,804,000 (2012: HK\$209,801,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

27. GOODWILL

	2013 HK\$'000	2012 HK\$'000
COST		
At 1 January and 31 December	<u>110,606</u>	<u>110,606</u>
IMPAIRMENT		
At 1 January and 31 December	<u>60,000</u>	<u>60,000</u>
CARRYING VALUES		
At 31 December	<u><u>50,606</u></u>	<u><u>50,606</u></u>

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

For the year ended 31 December 2013, management has reviewed goodwill for impairment testing purpose. The review comprised a comparison of the carrying amount and value in use of an acquired subsidiary (the smallest cash-generating unit) to which the goodwill has been allocated. The acquired subsidiary is involved in insurance business.

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

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

The management of the Group determines that there is no impairment loss on the goodwill for the year ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

28. CONTINGENT LIABILITIES AND COMMITMENTS

	2013 HK\$'000	2012 HK\$'000
Contingent liabilities and commitments		
- contractual amounts		
Direct credit substitutes	1,041,747	1,077,350
Trade-related contingencies	479,056	425,309
Forward asset purchases	7,049	7,864
Undrawn formal standby facilities, credit lines and other commitments:		
Which are unconditionally cancellable without prior notice	6,864,582	6,913,604
With an original maturity of one year and under	8,212,601	8,137,008
With an original maturity of over one year	1,899,267	2,420,887
Lease commitments	55,424	58,515
	<u>18,559,726</u>	<u>19,040,537</u>

The credit risk weighted amount of contingent liabilities and commitments is HK\$3,196,283,000 (2012: HK\$3,507,559,000).

The credit risk weighted amount is calculated based on "standardised approach". The risk weights used in the computation of credit risk weighted amounts range from 0% to 100% (2012: 0% to 100%) which is assessed in accordance with the Banking (Capital) Rules.

Direct credit substitutes include financial guarantees given by the Group.

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

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2013 HK\$'000	2012 HK\$'000
Within one year	26,614	24,416
In the second to fifth years inclusive	28,810	33,627
Over five years	—	472
	<u>55,424</u>	<u>58,515</u>

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

Capital commitments outstanding at the end of the reporting period are as follows:

	2013 HK\$'000	2012 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial information in respect of property and equipment	7,049	7,864

At the end of the reporting period, the Group as lessor had contracted with tenants for the following future minimum lease payments:

	2013 HK\$'000	2012 HK\$'000
Within one year	16,077	14,881
In the second to fifth years inclusive	1,901	15,954
After five years	2,730	—
	<u>20,708</u>	<u>30,835</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

29. RELATED PARTY TRANSACTIONS

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

	Interest, commission and rental income		Interest and rental expenses	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Ultimate holding company	<u>2,920</u>	<u>8,760</u>	<u>11,836</u>	<u>16,618</u>
Fellow subsidiaries	<u>1,641</u>	<u>1,175</u>	<u>–</u>	<u>–</u>
Associates	<u>24,303</u>	<u>19,852</u>	<u>3,262</u>	<u>3,260</u>
Key management personnel (<i>Note</i>)	<u>6,914</u>	<u>5,513</u>	<u>10,615</u>	<u>10,960</u>

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

	Loan to related parties		Deposit from related parties	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Ultimate holding company	<u>–</u>	<u>–</u>	<u>254,745</u>	<u>159,663</u>
Fellow subsidiaries	<u>36,800</u>	<u>34,592</u>	<u>–</u>	<u>–</u>
Associates	<u>11,503</u>	<u>14,337</u>	<u>110,166</u>	<u>97,147</u>
Key management personnel (<i>Note</i>)	<u>507,899</u>	<u>417,568</u>	<u>786,463</u>	<u>653,558</u>

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

Amounts due from related parties are included in advances and other accounts on the statement of financial position.

Amounts due to related parties are included in deposits from customers on the statement of financial position.

Compensation of key management personnel

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

	2013 HK\$'000	2012 HK\$'000
Short-term benefits	<u>66,103</u>	<u>66,002</u>
Post employment benefits	<u>4,740</u>	<u>4,873</u>
	<u>70,843</u>	<u>70,875</u>

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

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

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

for the year ended 31 December 2013

30. EVENT AFTER THE REPORTING PERIOD

On 25 October 2013, qualifying shareholders of the Bank received an acquisition offer from Yuexiu Financial Holdings Limited (“Yuexiu Financial”) for a maximum of 326,250,000 shares of the Bank (representing 75% of its shares in issue) at an offer price of HK\$35.69 per share. At the same time, the Bank and Liu Chong Hing Investment Limited (“LCHI”) entered into an agreement in respect of the transfer and the lease of Chong Hing Bank Centre (the “Property”), the Bank’s head office building in Central, pursuant to which the Property would be transferred by the Bank to LCHI at HK\$2,230 million, and the ground floor and 18 other floors of the Property would then be leased by LCHI to the Bank for a term of five years with the option for the Bank to renew the lease for a further term of five years. The Bank would distribute the proceeds of the transfer of the Property less the unaudited carrying value of the Property as at 30 June 2013 (such unaudited carrying value being approximately HK\$264 million) to its shareholders by way of a special interim dividend of HK\$4.5195 per share in cash.

Approval was granted by the Hong Kong Monetary Authority on 8 January 2014 for each of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited) (“Guangzhou Yue Xiu Holdings”), Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu Enterprises”) and Yuexiu Financial (hereinafter collectively referred to as “Yue Xiu”) to become a controlling shareholder of the Bank. Yuexiu Financial is a wholly-owned subsidiary of Yue Xiu Enterprises. Yue Xiu Enterprises is a wholly-owned subsidiary of Guangzhou Yue Xiu Holdings, which is a state-owned limited liability company established in the PRC beneficially wholly-owned by the Guangzhou Municipal People’s Government of the PRC.

The acquisition by Yue Xiu of a controlling shareholding interest in the Bank, amounting to 75% of the Bank’s issued share capital, was completed on 14 February 2014. On 19 February 2014, the sale of the Property was completed and, on 20 February 2014, the special interim dividend was paid.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS

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

	31 December 2013				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000 <i>(Note 1)</i>	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,479,980	2	-	642,248	-
- Property investment	8,307,110	-	2	8,272,041	2
- Financial concerns	2,407,128	-	-	1,853,502	-
- Stockbrokers	773,195	10	-	609,550	-
- Wholesale and retail trade	1,934,329	5,616	5,158	1,581,434	5,158
- Manufacturing	1,923,830	-	-	1,172,244	-
- Transport and transport equipment	755,028	-	-	654,770	-
- Recreational activities	1,296	1	-	1,297	-
- Information technology	21,067	29	-	17,231	-
- Others <i>(Note 2)</i>	7,770,364	6,055	4,448	4,555,683	6,684
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	469,597	-	-	469,597	-
- Loans for the purchase of other residential properties	7,058,570	287	-	7,057,313	-
- Credit card advances	109,166	9,136	484	-	516
- Others <i>(Note 3)</i>	2,082,372	-	283	1,510,997	474
	<u>35,093,032</u>	<u>21,136</u>	<u>10,375</u>	<u>28,397,907</u>	<u>12,834</u>
Trade finance	3,287,545	60,643	3,592	610,909	3,592
Loans for use outside Hong Kong	6,739,637	107,646	788	2,926,781	2,308
	<u>45,120,214</u>	<u>189,425</u>	<u>14,755</u>	<u>31,935,597</u>	<u>18,734</u>

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

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

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

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

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

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

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

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

The Group's advances to customers overdue for over three months, and new impairment allowances and advances written off during the year ended 31 December 2013 and 2012 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	2013		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property Investment	626	2	-
- Others	5,419	3,533	330
Individuals			
- Loans for the purchase of other residential properties	1,571	-	-
Loans for use outside Hong Kong	<u>77,715</u>	<u>121</u>	<u>-</u>
	2012		
	Advances overdue for over three months as at 31 December HK\$'000	New impairment allowances during the year HK\$'000	Advances written-off during the year HK\$'000
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property Investment	12,893	1	-
- Others	5,192	278	120
Individuals			
- Loans for the purchase of other residential properties	438	-	-
Loans for use outside Hong Kong	<u>77,716</u>	<u>127</u>	<u>195</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

2. ADVANCES TO CUSTOMERS - BY GEOGRAPHICAL AREAS

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

	2013				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	42,346,053	92,487	16,426	13,967	172,533
People's Republic of China	649,113	2,308	2,308	788	4,321
Macau	636,156	–	–	–	6,367
America	612,875	–	–	–	6,204
Others	876,017	–	–	–	–
	<u>45,120,214</u>	<u>94,795</u>	<u>18,734</u>	<u>14,755</u>	<u>189,425</u>

	2012				
	Total advances HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances HK\$'000	Individual impairment allowance HK\$'000	Collective impairment allowance HK\$'000
Hong Kong	37,188,661	113,460	21,886	23,266	151,692
People's Republic of China	832,593	2,308	2,308	788	5,070
Macau	231,764	–	–	–	2,318
America	535,681	–	–	–	5,426
Others	403,490	–	–	–	–
	<u>39,192,189</u>	<u>115,768</u>	<u>24,194</u>	<u>24,054</u>	<u>164,506</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

3. CROSS-BORDER CLAIMS

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

	31 December 2013			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	22,321,106	87,701	1,303,616	23,712,423
- of which - China	<u>15,824,927</u>	<u>30,027</u>	<u>597,953</u>	<u>16,452,907</u>
	31 December 2012			
	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
Asia Pacific excluding Hong Kong	20,341,530	90,476	861,630	21,293,636
- of which - China	9,268,912	32,078	580,226	9,881,216
- of which - Japan	<u>3,875,185</u>	<u>3,241</u>	<u>1,679</u>	<u>3,880,105</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

4. CURRENCY RISK

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

	2013		
	RMB	Total	
Equivalent in thousand of HK\$			
Spot assets	9,344,291	9,344,291	
Spot liabilities	(8,779,126)	(8,779,126)	
Forward purchases	33,704	33,704	
Forward sales	<u>(394,541)</u>	<u>(394,541)</u>	
Net long position	<u>204,328</u>	<u>204,328</u>	
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>351,377</u>	<u>399,922</u>
		2012	
	US\$	RMB	Total
Equivalent in thousand of HK\$			
Spot assets	14,311,091	6,588,766	20,899,857
Spot liabilities	(9,612,043)	(5,364,226)	(14,976,269)
Forward purchases	338,731	18,405	357,136
Forward sales	<u>(5,011,862)</u>	<u>(1,096,712)</u>	<u>(6,108,574)</u>
Net long position	<u>25,917</u>	<u>146,233</u>	<u>172,150</u>
	MOP	RMB	Total
Net structural position	<u>48,545</u>	<u>351,377</u>	<u>399,922</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

5. OVERDUE AND RESCHEDULED ASSETS

	2013	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	1,545	0.0
- 1 year or less but over 6 months	2,728	0.0
- over 1 year	<u>90,522</u>	<u>0.2</u>
Total overdue advances	<u>94,795</u>	<u>0.2</u>
Rescheduled advances	<u>263,085</u>	<u>0.6</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>11,996</u>	

	2012	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	78,204	0.2
- 1 year or less but over 6 months	5,012	0.0
- over 1 year	<u>32,552</u>	<u>0.1</u>
Total overdue advances	<u>115,768</u>	<u>0.3</u>
Rescheduled advances	<u>210,821</u>	<u>0.5</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>23,723</u>	

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

	2013 HK\$'000	2012 HK\$'000
Covered portion of overdue loans and advances	83,564	99,371
Uncovered portion of overdue loans and advances	<u>11,231</u>	<u>16,397</u>
	<u>94,795</u>	<u>115,768</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>1,533,567</u>	<u>1,487,330</u>

There were no advances to banks and other financial institutions or other assets which were overdue for over three months as at 31 December 2013 and 31 December 2012, nor were there any rescheduled advances to banks and other financial institutions.

Repossessed assets held by the Group as at 31 December 2013 amounted to HK\$16,040,000 (2012: HK\$48,320,000).

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

6. NON-BANK MAINLAND EXPOSURES

Types of counterparties	31 December 2013			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Mainland entities	3,166,256	606,437	3,772,693	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	6,275,281	989,231	7,264,512	788
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	100,593	–	100,593	–
	<u>9,542,130</u>	<u>1,595,668</u>	<u>11,137,798</u>	<u>788</u>

Types of counterparties	31 December 2012			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Mainland entities	2,832,392	710,131	3,542,523	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	5,373,881	1,206,393	6,580,274	7,445
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	91,659	–	91,659	–
	<u>8,297,932</u>	<u>1,916,524</u>	<u>10,214,456</u>	<u>7,445</u>

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

7. LIQUIDITY RATIO

	2013 %	2012 %
Average liquidity ratio for the year	<u>41.70</u>	<u>44.91</u>

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

8. CAPITAL MANAGEMENT

	2013 %
Total capital ratio	14.57
Tier 1 capital ratio	10.82
Common Equity Tier 1 ("CET 1") capital ratio	10.82
	2012 %
Capital adequacy ratio	15.34
Core capital ratio	10.57

Capital adequacy ratios as at 31 December 2013 were compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the "Basel III" capital accord, which became effective on 1 January 2013. In accordance with the Banking (Capital) Rules, the Bank has adopted the "standardised approach" for the calculation of the risk-weighted assets for credit risk, "standardised (market risk) approach" for the calculation of market risk and "basic indicator approach" for the calculation of operational risk. The capital adequacy ratio is consolidated, under the Banking (Capital) Rules, with reference to the financial information of the Bank, Chong Hing Finance Limited, Right Way Investments Limited, Gallbraith Limited, Chong Hing Information Technology Limited, Card Alliance Company Limited, Top Benefit Enterprise Limited and Hero Marker Limited.

The capital adequacy ratio as at 31 December 2012 was compiled in accordance with the Banking (Capital) Rules under Hong Kong Banking Ordinance for the implementation of the "Basel II" capital accord.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

for the year ended 31 December 2013

8. CAPITAL MANAGEMENT - continued

The Bank has set up a “Regulatory Disclosure” section on its website to house all of information relating to the disclosure of regulatory capital to comply with Banking (Disclosure) Rules. In accordance with section 45 of Banking (Disclosure) Rules, the “Regulatory Disclosure” section includes the following information:

- A detailed breakdown of the Common Equity Tier 1 capital, Additional Tier 1 capital, Tier 2 capital and regulatory deductions to the capital base by using the standard disclosure templates as specified by the HKMA;
- A full reconciliation of the Common Equity Tier 1 capital items, Additional Tier 1 capital items, Tier 2 capital items and regulatory deductions to the capital base and the balance sheet in the published financial information; and
- The full terms and conditions of all capital instruments.

The above information will be available on the Bank’s website: www.chbank.com in the “Regulatory Disclosure” section in accordance with the Banking (Disclosure) Rules.

9. BASIS OF CONSOLIDATION

The consolidated financial information cover the consolidated financial information of the Bank and all its subsidiaries and included the attributable share of interest in the Group’s associates.

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

Subsidiaries that are included within the accounting scope of consolidation but are not included within the regulatory scope of consolidation are as follows:

Name of company	Principal activities	Total assets		Total equity	
		2013 HK\$’000	2012 HK\$’000	2013 HK\$’000	2012 HK\$’000
Chong Hing (Nominees) Limited	Provision of nominee services	100	100	100	100
Chong Hing Securities Limited	Stockbroking	797,614	732,973	581,905	560,393
Chong Hing Commodities and Futures Limited	Investment holding and commodities and futures broking	66,074	62,231	60,149	58,058
Chong Hing Insurance Company Limited	Insurance underwriting	294,619	265,250	186,530	178,382
Chong Hing (Management) Hong Kong Limited	Provision of management services	720	100	100	100

STATEMENT OF COMPLIANCE

In preparing the consolidated financial statements for 2013, the Bank has fully complied with the Banking (Disclosure) Rules of the Hong Kong Banking Ordinance.

FINAL DIVIDEND

The directors will recommend at the forthcoming annual general meeting of the shareholders to be held on Thursday, 8 May 2014 the payment of the final cash dividend for 2013 of HK\$0.33 per share. This final cash dividend, if approved, will be paid on Friday, 23 May 2014 to shareholders whose names are listed on the register of members of the Bank on Tuesday, 20 May 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Bank will be closed from Friday, 2 May 2014 to Wednesday, 7 May 2014 (both days inclusive), for the purpose of ascertaining the Shareholders who are entitled to attend and vote at the 2014 annual general meeting of the shareholders, during which period no transfer of shares can be registered. In order to qualify for attending and voting at the 2014 annual general meeting of the shareholders, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Wednesday, 30 April 2014.

In addition, the register of members of the Bank will be closed from Friday, 16 May 2014 to Tuesday, 20 May 2014 (both days inclusive), for the purpose of ascertaining the Shareholders who qualify to receive the final cash dividend, during which period no transfer of shares can be registered. In order to qualify for receiving the final cash dividend in question, all transfer documents, along with the relevant share certificates, must be lodged for registration with the Bank's share registrar and transfer office, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Thursday, 15 May 2014.

SUFFICIENCY OF PUBLIC FLOAT

The Group maintained a sufficient public float throughout the year ended 31 December 2013.

As set out in the composite offer and response document (the "Composite Document") dated 15 January 2014 jointly issued by the Bank, Yue Xiu Enterprises (Holdings) Limited and Yuexiu Financial Holdings Limited, Nomura International (Hong Kong) Limited, on behalf of the Yuexiu Financial Holdings Limited, made a voluntary conditional cash partial offer (the "Partial Offer") to acquire a maximum of 326,250,000 shares in the capital of the Bank (representing 75% of the issued share capital of the Bank).

Upon settlement of the Partial Offer on 14 February 2014, Yuexiu Financial Holdings Limited acquired a total of 326,250,000 shares in the capital of the Bank (representing 75% of the issued share capital of the Bank) and Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate") holds 50,408,488 shares in the capital of the Bank (representing approximately 11.59% of the issued share capital of the Bank) and therefore continues to be a substantial shareholder and connected person (as defined in Chapter 1 of the Listing Rules) of the Bank. On 14 February 2014, the public float of the Bank fell to approximately 13% which is below the minimum public float requirement under Rule 8.08(1)(a) of the Listing Rules.

As disclosed in the Composite Document, Liu Chong Hing Investment Limited has agreed to reduce the residual shareholding of its wholly owned subsidiary, Liu Chong Hing Estate, in the Bank by way of a distribution in specie of some of the shares in the capital of the Bank held by Liu Chong Hing Estate or by the taking of such other steps as may be satisfactory to the Stock Exchange so that Liu Chong Hing Estate will cease to be a substantial shareholder and a connected person (as defined in Chapter 1 of the Listing Rules) of the Bank for the purpose of the public float requirement under the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH PUBLIC FLOAT REQUIREMENT UNDER RULE 8.08(1)(a) OF THE LISTING RULES

Pursuant to Note 1 to Rule 8.08(1)(b) of the Listing Rules, trading in the shares and debt securities of the Bank was suspended with effect from 9:00 a.m. on 6 February 2014. The Bank has applied for and the Stock Exchange has subsequently granted a waiver from strict compliance with the public float requirement under Rule 8.08(1)(a) of the Listing Rules for a three-month period from 5 February 2014 to 5 May 2014 (both days inclusive). Active steps are being taken to restore the required minimum public float and announcement(s) regarding the restoration of public float and resumption of trading will be made as soon as possible.

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

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

CORPORATE GOVERNANCE

The directors confirm that, for the year ended 31 December 2013, the Bank has complied with the former (Code on Corporate Governance Practices) and the revised (Corporate Governance Code) Code Provisions as set forth in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except:

1. Under the Bank's Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest one-third) of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board of directors, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider such practices to be appropriate alternatives to those recommended under Code Provisions A.4.1 and A.4.2.
2. As to the nomination of candidates for appointment to the board, instead of having a nomination committee in place under Code Provision A.5.1, any director is entitled to recommend for the consideration and, if thought fit, approval of the board, as well as other relevant supervisory and regulatory bodies, suitable candidates who can contribute to the Bank, and discharge their responsibilities in the interests of the Bank and its shareholders as a whole. The directors consider such a practice to be an appropriate alternative to that recommended under Code Provision A.5.1.
3. As set forth in the Bank's Policy Statement on Corporate Governance, the directors should bear in mind that despite their respective directorial classifications (as the case may be, as executive directors, non-executive directors or independent non-executive directors), each of them shall exercise his own judgement when matters are submitted to the board for the individual directors' collective review, decision and approval. The directors shall guard against any conflict of interest and act in good faith in the interests of the Bank as a whole at all times. They shall exercise due care, diligence and skill when performing their duties and shall use their powers for proper corporate purposes only.

In line with the Bank's Policy Statement on Corporate Governance, the Chairman has encouraged his fellow directors (be they executive directors, non-executive directors or independent non-executive directors) to freely express their views and has allowed sufficient time for discussion of issues at full board meetings. If, for example, the non-executive directors (including the independent non-executive directors) hold views contrary to those of the executive directors in respect of any matter discussed at a full board meeting, the minutes will have this reflected clearly. In the light of such an established practice, the directors are of the view that such open and free discussions at full board meetings among all the directors are more productive and, as such, there is no further need for the non-executive directors (including the independent non-executive directors) to hold meetings, under Code Provision A.2.7, without the presence of the executive directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Model Securities Transactions Code"). After specific enquiry by the Bank, all of the directors confirmed that, for the financial year ended 31 December 2013, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank's own code in question.

PUBLICATION OF RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE OF HONG KONG LIMITED AND THE BANK

The Bank's Annual Report 2013, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Bank and dispatched to shareholders on or about 14 March 2014.

CHAIRMAN'S STATEMENT

Economic Review

2013 was a volatile year for the global economy. The global financial market continued to be impacted by monetary and interest rate policies of central banks around the world. Japan's weak yen policy launched in April to stimulate economic growth has propelled the Japan stock market to a record high in six years. In the Eurozone, inflation rate remained low despite the fading recession in the second half of the year. The European Central Bank dropped its benchmark interest rate to a record low of 0.25% in November. On the other hand, in light of the reviving economy of the United States, the Federal Reserve Board ("FRB") announced cutting back asset purchases in December, casting a gloom over the emerging economies and bullion market.

The Hong Kong economy was overshadowed by the turbulent external environment. Compared with that of the same period last year, gross domestic product in the third quarter of 2013 grew by 2.9% in real terms. The labour market remained in a state of full employment, the unemployment rate fell slightly to 3.2% in the fourth quarter of 2013. Since the implementation of tightened property regulations by the Hong Kong Government in February 2013, second-hand residential property transactions dropped by more than 40% year-on-year. On the stock market front, Hang Seng Index zigzagged upwards by 2.9% throughout the year, standing at around 23,300 on the last trading day.

Against the backdrop of a changing global economy, the Central Government upheld its fiscal plan and prudent monetary policy. China's economy remained stable as gross domestic product in 2013 increased by 7.7%. The inflation of prices was within control, with the consumer price index for the year standing at 2.6%.

After its last rate-fixing meeting in 2013, the FRB decided to keep the target range for the federal funds rate at 0% to 0.25% and announced the commencement of its exit plan by cutting back its monthly asset purchases to US\$75 billion since January 2014.

Results Announcement and Profit Analysis

The results for the financial year of 2013 of the Bank, on a consolidated basis, are summarised below:

Key Financial Data	2013 HK\$'000 (unless otherwise specified)	2012 HK\$'000 (unless otherwise specified)	Variance %
1. Net operating profit before impairment	660,430	534,190	+23.63
2. Profit attributable to shareholders	557,418	543,340	+2.59
3. Return on equity	7.40%	7.64%	-3.14
4. Earnings per share	HK\$1.28	HK\$1.25	+2.59
5. Net interest income	1,014,205	836,908	+21.18
6. Net interest margin	1.26%	1.10%	+14.55
7. Net fee and commission income	209,933	189,365	+10.86
8. Net (losses) gains on financial instruments at fair value through profit or loss	(22,414)	57,473	-139.00
9. Operating expenses	781,575	788,591	-0.89
10. Cost-to-income ratio	54.20%	59.62%	-9.09
11. Impairment allowances on loans and advances - net allowances (amounts reversed)	35,237	(65,228)	-154.02
12. Total loans and advances to customers	45,120,214	39,192,189	+15.13
13. Impaired loan ratio	0.04%	0.06%	-33.33
14. Provision coverage of impaired loans and advances	1,089.83%	779.36%	+39.84
15. Rescheduled loan ratio	0.58%	0.54%	+7.41
16. Total customer deposits	71,164,904	67,508,748	+5.42
17. Loan-to-deposit ratio	57.25%	52.53%	+8.99
18. Total assets	85,188,087	80,755,365	+5.49
19. Net asset value per share (before final dividend)	HK\$17.77	HK\$16.95	+4.85
20. Total capital ratio	14.57%	15.34%	-5.02
		(Capital adequacy ratio)	
21. Common Equity Tier 1 capital ratio	10.82%	10.57%	+2.37
		(Core capital ratio)	
22. Average liquidity ratio	41.70%	44.91%	-7.15

Analysis of Key Financial Data

For the financial year of 2013, on a consolidated basis, net operating profit before impairment amounted to HK\$660 million and showed an improvement of 23.6% year on year. Net interest income at HK\$1,014 million was 21.2% higher than last year as total assets increased by 5.5% and net interest margin widened 16 basis points year on year to 1.26%. Net interest margin improved from 1.19% in the first half of 2013 to 1.34% in the second half of 2013. The increase in net interest margin was attributable to the growth in loans and advances and a reduction in interest expenses on customer deposits in line with the market.

Net fee and commission income rose 10.9% to HK\$210 million mainly because of the improvement in commission income from securities dealings. Revaluation of financial instruments at fair value through profit or loss turned from net gains of HK\$57 million in the year before to net losses of HK\$22 million this year. Such losses included revaluation losses on foreign currency forward contracts of HK\$27 million which should be offset by net exchange gains and net gains from foreign currency contracts of HK\$104 million included under other operating income. The Bank entered into these contracts to manage liquidity and surplus funds from customer deposits.

On the other fronts, operating expenses were similar to last year with total staff costs increased by 2.13%. Net impairment allowances on loans and advances were a charge of HK\$35 million this year, as compared to a net reversal of HK\$65 million last year.

Profit attributable to shareholders amounted to HK\$557 million, as increase of 2.59% over that for the year before, translating into earnings of HK\$1.28 per share and return on equity of 7.40%.

Total loans and advances to customers increased by 15.13% to HK\$45,120 million, with loans for use in Hong Kong increased by 7.8%, trade finance increased by 163.7% and loans for use outside Hong Kong increased by 25.3% year on year. With careful management on the exposure to credit risk, asset quality of loans and advances continued to improve with impaired loan ratio at 0.04%, provision coverage of impaired loans and advances at 1,089.83%, and rescheduled loan ratio at 0.58%. Total customer deposits increased by 5.4% to HK\$71,165 million. As loan growth exceeded deposit growth, loan-to-deposit ratio increased from 52.53% in December 2012 to 57.25% in December 2013.

Investments in debt securities designated at fair value dropped significantly after the structured products were sold and most of the convertible bonds were called or matured in the first half of 2013. However, investments in available-for-sale securities rose by 28.7% year on year to HK\$5,433 million and such investments were mainly in senior debt securities guaranteed or issued by large corporate entities which are listed on the Stock Exchange of Hong Kong.

Total capital ratio decreased by 5.02% from 15.34% in December 2012 to 14.57% in December 2013 after the growth in loans and advances to customers, the Tier 1 capital ratio was at 10.82% and the Common Equity Tier 1 capital ratio was also at 10.82%. Total assets increased by 5.5% to HK\$85,188 million. The Bank's net asset value per share (before the payment of the final cash dividend for 2013) was HK\$17.77 as of 31 December 2013. The total net book value for leasehold and buildings of Chong Hing Bank Centre of HK\$269 million was reclassified as assets held for sale as the disposal to Liu Chong Hing Investment Limited at a consideration of HK\$2,230 million was completed on 19 February 2014.

All in all, the Bank's core business lines and overall financial health are strong and sound, overall asset quality good, impaired loan ratio low, provision coverage high, and capital adequacy and liquidity ratios well above the relevant statutory requirements.

Dividend

Your board has considered that it is prudent to preserve the Bank's capital so as to better satisfy the new requirements under "Basel III". As such, your board has recommended paying the final cash dividend of HK\$0.33 per share for the financial year of 2013 (2012 final cash dividend: HK\$0.35 per share) to shareholders whose names appear in the Register of Members at the close of business on Tuesday, 20 May 2014. Total dividends for the financial year of 2013, including the interim cash dividend of HK\$0.14 per share paid on 26 September 2013 (2012 interim cash dividend: HK\$0.11 per share), amounted to HK\$0.47 per share (2012 total dividends: HK\$0.46 per share).

A special interim cash dividend of HK\$4.5195 per share was paid on 20 February 2014 following the completion of the transfer of Chong Hing Bank Centre on 19 February 2014 referred to below in this statement.

Business Review

Corporate and Retail Banking

Loan and Deposit Business

The property market remained sluggish as a result of tightened property regulations implemented by the Hong Kong Government. Nevertheless, the Bank's residential mortgage loans recorded reasonable growth in both the number of cases and the loan amounts in 2013 compared with those of the same period last year. Deposit business continued to grow throughout the year. With efforts devoted to consolidating its clientele of small and medium-sized customers, the Bank has established a stable and sustained stream of deposit through its retail branch network to facilitate business development. Moreover, the Bank also capitalised on the development opportunities of Renminbi products and attained a substantial growth in both Renminbi deposits and overall clientele. In respect of retail loan business, the Bank achieved double digit growth year-on-year in income and business volume through active pursuit of development and strengthening of its distribution channels.

As a result of our aggressive strategy in expanding clientele and adjusting rates, the Bank's corporate loan business registered substantial growth in terms of interest income, non-interest income and net interest margin compared with those of the same period last year. Total volume of corporate loans also continued to increase. Further to supporting the Hong Kong Government's Loan Guarantee Scheme for the small and medium-sized enterprises ("SME"), the Bank also actively participated in the "SME Financing Guarantee Scheme" of the Hong Kong Mortgage Corporation Limited to enlarge its SME client base.

With a mission to work with SMEs to attain mutual growth, the Bank is committed to providing SMEs with flexible, one-stop banking services. The Bank's SME services were highly recognised by the industry, as it entered the nomination for, and received, the "Best SME's Partner Award" from the Hong Kong General Chamber of Small and Medium Business for the fifth time.

Maintaining a prudent lending approach, the Bank has been a strong supporter of local enterprises. With the aim of expanding its clientele, the Bank helped mainland companies establish their businesses in Hong Kong while also providing trade finance and cross-border Renminbi services to local customers in support of their business development in the Mainland. Meanwhile, active promotion of wealth management services has been implemented to explore mutual business opportunities.

Card Business

For 2013, the Bank's credit card business recorded growth in the number of credit cards issued, spending amount, accounts receivable and merchant-billed turnover compared with those of the same period last year. Overall merchant-billed turnover registered double-digit year-on-year growth. In particular, the turnover for UnionPay cards alone attained a remarkable growth of over 30%.

The Bank continued its well-received "Dual Card Program" in 2013. Under the program, customers were rewarded with fabulous treats upon successful application for UnionPay Dual Currency Credit Card together with any other Chong Hing credit card.

To maintain its strong business growth, the Bank will continue to develop its credit card and merchant acquiring businesses.

Wealth Management Business

On the retail investment business front, the Bank continued to streamline the sales process and enhance the quality of its financial services in 2013. During the year, solid growth was recorded in fund sales compared with that of the same period last year. The Bank intends to offer more investment products that caters for market demand, such as Renminbi-related investment products, and to explore other distribution channels to support the sustained growth of its wealth management business.

On the private investment services front, the Premium and Private Banking Department was established in July 2013 to provide better personalised investment services to high-end customers. Furthermore, the Bank continued to develop its account service with one-stop investment and asset filing services, providing assistance to individuals intending to enter Hong Kong for residence via the "Capital Investment Entrant Scheme". The development of well-diversified product portfolio is expected to expand the income stream of the Bank's wealth management business.

China Business

The Bank is planning to upgrade its current Guangzhou and Shanghai representative offices to branches, so as to provide banking support to Hong Kong customers in the Mainland. In September 2013, the Bank attained the qualification of "Renminbi Qualified Foreign Institutional Investor", opening up investment opportunities in the Mainland market for Hong Kong customers.

Building on the existing cross-border Renminbi clearing services, the Bank will further roll out new Renminbi products in line with market demand.

Treasury Activities

In 2013, treasury activities of the Bank continued to comprise mainly of money market operations, foreign exchange services and investments in debt securities. In line with the usual practice of the Bank, all these activities were carried out under prudent risk management.

In anticipation of asset purchase cut by the FRB, US dollar remained strong against major currencies. Overall foreign exchange services recorded a drop compared with those of the same period last year, attributable to a decrease in customers' demand for other currencies. On the other hand, as the appreciation of Renminbi was expected to continue, Renminbi foreign exchange service attained a growth of 33% in transaction volume compared with that of the previous year.

Money market operations continued mainly to provide the Bank with liquidity and facilitate the management of net interest margin. In addition to normal interbank market transactions, foreign currency funding swaps and repurchase agreements were also employed by the Bank for liquidity management. With such diversification of instruments, the Bank's statutory liquidity ratio remained relatively stable. On the other hand, net interest margin rebounded as a result of development in other businesses.

In respect of debt securities investment, the Bank mainly invested in corporate bonds during 2013 in light of the anticipated reduction in asset purchases in the US and liquidity requirements to be imposed by the regulators.

Other Related Businesses

Securities Business

For 2013, the global investment market was turbulent as the US exit plan looms. The Hong Kong stock market zigzagged upwards amid various uncertainties, registering a slight increase in average turnover compared with that in 2012. As a result of constant improvement in operation efficiency and service quality, Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, recorded satisfactory double-digit growth in turnover and profit before tax compared with those of the same period last year. In particular, the mobile securities trading service attained a satisfactory growth of over 34% and 62% in the volume and the amount of transaction respectively.

Insurance Business

Chong Hing Insurance Company Limited ("Chong Hing Insurance"), a wholly-owned subsidiary of the Bank, recorded a moderate increase in turnover compared with that of the same period last year. Maintaining the Bank's prudent approach of development, Chong Hing Insurance will continue to strive for better results by expanding its corporate and personal insurance business on various fronts with enhanced service quality.

Corporate Responsibility

In order to practise the preaching of serving as a "community bank" and provide a comprehensive range of high quality banking services to the local community, the Bank strived to strengthen its service network. In September 2013, a self-service banking centre was set up at On Ting Shopping Centre in Tuen Mun, providing the neighbourhood with a more convenient self-service banking channel. Apart from the head office in Central, the Bank now has a total of 51 local branches.

As a caring institution serving the community, the Bank takes part in various social improvement and cultural and arts activities. In 2013, the Bank made a further donation to Gracefield East Kowloon Christian Kindergarten, which provides quality education for children from low-income, single-parent or other needy families. Meanwhile, the Bank also sponsored a number of arts and cultural exchange activities, including "Masterpiece London 2013 - Hong Kong Pavilion", "Fine Art Asia 2013" and "Chiming Notes that Resonate through Two Millennia" Concert of the Hong Kong Chinese Orchestra. In addition, the Bank also actively participated in and supported activities of other charitable organisations. The Bank was awarded the "Caring Company" logo by the Hong Kong Council of Social Service for the sixth year in 2013.

Financial Services Award

In March 2013, the Bank received the "Straight Through Processing ("STP") Award" from the Bank of New York Mellon for the fifth consecutive year. The award recognised the Bank's outstanding performance in payment formatting and a high STP rate of over 95% in fully-automated USD payment processing without manual intervention.

Corporate Governance

The Bank is well aware that complying with the relevant statutory and regulatory requirements and maintaining good corporate governance standards are imperative to the effective and efficient operation of the Bank. The Bank has, therefore, deployed considerable resources, as well as adopted and implemented relevant measures, to ensure that the relevant statutory and regulatory requirements are complied with and that a high standard of corporate governance practices is maintained.

Economic Outlook

Changes in the quantitative easing monetary measures of the US reflected the FRB's confidence in continued economic improvement, which will be conducive to the long-term development of the global economy. Nevertheless, there is a long way to recovery for the US and its exit plan will hinge on the performance of its economic indicators. In addition, the Eurozone and Japan continued to implement quantitative easing monetary measures. Overall, there are still uncertainties looming over the global economy.

Against the risk of a reversal in capital flow, the Hong Kong Government strived continuously to maintain the stability of the financial system and strengthened economic ties with the Mainland. In August 2013, the Hong Kong Government and the Central Government entered into Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"), containing the greatest number of measures since CEPA was signed. On the financial front, there will be deregulation on setting up joint venture securities and fund management companies. Mutual recognition of fund products between the Mainland and Hong Kong will also be explored, consolidating Hong Kong's role as an international asset management centre. Furthermore, the Central Government issued a total of \$23 billion Renminbi sovereign bonds in Hong Kong. The successive bond issues for five years in a row reflected the Central Government's intention of establishing this as a long-term routine practice, further strengthening the development of Hong Kong as an offshore Renminbi business centre.

Looking forward, Hong Kong will benefit from the policy support of the Central Government and opportunities emerging from the economic transition of the Mainland. As an international financial centre and business hub, Hong Kong will ride on the deepening reforms in the Mainland and explore international trade and investment opportunities with partners across the border in the spirit of achieving win-win cooperation. As the furtherance of the Mainland and Hong Kong Closer Economic Partnership Arrangement continued to foster a closer economic relationship across the border, banks in the two regions are facing increasing demand for cross-border financial services. Moreover, the internationalisation of Renminbi is expected to continue. In light of this, Hong Kong is well positioned to capitalise on its first-mover advantage in the development of Renminbi trade finance, cross-border direct investment from the Mainland as well as Renminbi-related investment products or other financial services. Capitalising on such opportunities, the Bank will endeavour to further expand its cross-border financial services and Renminbi-related investment products, so as to deepen and widen its overall business development.

Acquisition of Shares of the Bank

On 25 October 2013, qualifying shareholders of the Bank received an acquisition offer from Yuexiu Financial Holdings Limited (“Yuexiu Financial”) for a maximum of 326,250,000 shares of the Bank (representing 75% of its shares in issue) at an offer price of HK\$35.69 per share. At the same time, the Bank and Liu Chong Hing Investment Limited (“LCHI”) entered into an agreement in respect of the transfer and the lease of Chong Hing Bank Centre (the “Property”), the Bank’s head office building in Central, pursuant to which agreement the Property would be transferred by the Bank to LCHI at HK\$2,230 million, and the ground floor and 18 other floors of the Property would be leased by LCHI to the Bank for a term of five years with the option for the Bank to renew the lease for a further term of five years. The transfer of the Property was completed on 19 February 2014 and the Bank distributed the proceeds of the transfer less the unaudited carrying value of the Property as at 30 June 2013 (such unaudited carrying value being approximately HK\$264 million) to its shareholders by way of a special interim dividend of HK\$4.5195 per share in cash on 20 February 2014.

Approval was granted by the Hong Kong Monetary Authority on 8 January 2014 for each of 廣州越秀集團有限公司 (Guangzhou Yue Xiu Holdings Limited) (“Guangzhou Yue Xiu Holdings”), Yue Xiu Enterprises (Holdings) Limited (“Yue Xiu Enterprises”) and Yuexiu Financial (collectively “Yue Xiu”) to become a majority shareholder controller of the Bank and its wholly-owned deposit-taking company Chong Hing Finance Limited (“CH Finance”) under the Banking Ordinance. Yuexiu Financial is a wholly-owned subsidiary of Yue Xiu Enterprises. Yue Xiu Enterprises is a wholly-owned subsidiary of Guangzhou Yue Xiu Holdings, which is a State-owned limited liability company incorporated in the People’s Republic of China (“PRC”) beneficially wholly-owned by the Guangzhou Municipal People’s Government of the PRC. The acquisition by Yue Xiu of a controlling shareholding interest in the Bank, amounting to 75% of the Bank’s issued share capital, was settled on 14 February 2014, upon which Yue Xiu became a majority shareholder controller of the Bank and CH Finance under the Banking Ordinance.

Board and Senior Management Changes

In light of the completion of the acquisition offer in question, Dr Liu Lit Mo (Chairman), Mr Liu Lit Chi (Deputy Chairman and Managing Director) and Mr Wilfred Chun Ning Liu resigned as Executive Directors, Mr He Jiale, Mr Hidekazu Horikoshi, Mr Christopher Kwun Shing Liu and Mr Meng Qinghui resigned as Non-executive Directors and Dr Robin Yau Hing Chan and Mr Timothy George Freshwater resigned as Independent Non-executive Directors, all with effect on 14 February 2014.

Moreover, Mr Zhang Zhaoxing was appointed Chairman and Non-executive Director, Mrs Leung Ko May Yee Margaret was appointed Deputy Chairman, Managing Director and Executive Director, and Mr Zhu Chunxiu, Mr Wang Shuhui and Mr Li Feng were appointed Non-executive Directors, and Mr Lee Ka Lun was appointed Independent Non-executive Director, all with effect on 14 February 2014.

Sincere Acknowledgements

With Yue Xiu as the Bank's controlling shareholder, it is anticipated that there will be more cross-border financial cooperation between Guangzhou and Hong Kong as we complement each other in strengths and resources. It is also anticipated that the Bank will continue to strive for expansion into the Pearl River Delta area with a better prospect for further development.

The amalgamation between the Yuexiu Group and the Bank brings about a beneficial alliance across the border, creating synergy in terms of clientele, networking, human resource and business development while maintaining a stable local client base for the Bank. Upon completion of the acquisition, the Yuexiu Group will strengthen its management framework and governance structure with the aim of enhancing the Bank's operational efficiency and productivity in pursuit of transformation into an international banking group. In addition, the Bank will tap into the extensive network of the Yuexiu Group and further boost its business development in the Mainland. I have strong faith in the new Board of Directors, which is expected to uphold the prudent philosophy of the Bank. Apart from lending invaluable insights and introducing new ideas to the Board, the new members of the Board are expected to establish a close cooperation with members of the incumbent management team, who are well-experienced in local banking operations. They will work hand in hand with the Bank's professional staff members in executing the business strategy of the Yuexiu Group, capitalising on the shared resources and complementary strengths to pursue further diversification and achieve maximum benefit from the integration of operations.

I would like to express my sincerest appreciation to my fellow directors, as well as those who have recently stepped down following the completion of this share acquisition exercise by Yue Xiu, for their valuable contributions and wise stewardship. On behalf of your board, I would also like to express my heartfelt gratitude to our management and staff members for their commitment and dedication. I look forward to continue collaborating with my fellow directors, as well as our management and staff members, with an eye to achieving better results while continuing to maintain a prudent management approach in appreciation of the continued trust and support of our shareholders and customers.

REVIEW OF FINANCIAL REPORT

This financial report has been reviewed by the Bank's Audit Committee.

By Order of the Board

Zhang Zhaoxing

Chairman

26 February 2014

As of the date of this announcement:

- *the three Executive Directors of the Bank are Mrs Leung Ko May Yee Margaret (Deputy Chairman and Managing Director), Mr Lau Wai Man (Chief Executive Officer) and Mr Don Tit Shing Liu (Deputy Chief Executive Officer);*
- *the five Non-executive Directors are Mr Zhang Zhaoxing (Chairman), Mr Zhu Chunxiu, Mr Wang Shuhui, Mr Li Feng and Mr Alfred Cheuk Yu Chow; and*
- *the four Independent Non-executive Directors are Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo, Mr Andrew Chiu Cheung Ma and Mr Lee Ka Lun.*