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## **2011 FINAL RESULTS**

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### **RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011**

#### Highlights

- Profit attributable to shareholders amounted to HK\$559 million, an improvement of 17.5% over that for the previous year, translating into earnings of HK\$1.29 per share and return on equity of 8.3%
- Asset quality of loans and advances continued to be good with gross rescheduled loans as a percentage of gross advances to customers diminished by 24.3% from 0.7% in December 2010 to 0.53% in December 2011 and gross impaired loans as a percentage of gross advances to customers was at 0.19% in December 2011
- Net interest income was similar to that of the last year 2010 at HK\$815 million as total assets increased by 4% year on year but net interest margin narrowed 4 basis points from the previous year to 1.17%
- Net losses on financial instruments at fair value through profit or loss were HK\$102 million due to revaluation losses, and such price movements were in line with the financial market sentiments and there was no deterioration in credit quality
- Total loans and advances to customers rose 9% from December 2010 to HK\$41,338 million
- Capital adequacy ratio was maintained at 15.44% and core capital ratio was registered at 10.58%
- The Bank's core business lines and overall financial health are sound, its non-performing loan ratio low and asset quality good, and its capital adequacy and liquidity ratios are well above the relevant statutory requirements
- Total dividends for the financial year of 2011, including the interim cash dividend of HK\$0.15 per share paid in September 2011 (2010 interim cash dividend: HK\$0.10 per share), amounted to HK\$0.50 per share (2010 total dividends: HK\$0.45 per share)

The Directors of Chong Hing Bank Limited (the “Bank”) are pleased to announce the audited consolidated results of the Bank and its subsidiaries (the “Group”) for the year ended 31 December 2011, together with the comparative figures for the corresponding year in 2010. 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 2011.

## CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>2011</b> <b>HK\$’000</b>	<b>2010</b> <b>HK\$’000</b>	<b>Variance</b> <b>%</b>
Interest income		<b>1,369,989</b>	1,178,582	+16.24
Interest expense		<u>(554,668)</u>	<u>(362,455)</u>	+53.03
Net interest income	4	<b>815,321</b>	816,127	-0.10
Fee and commission income		<b>276,257</b>	291,763	-5.31
Fee and commission expense		<u>(58,534)</u>	<u>(51,589)</u>	+13.46
Net fee and commission income	5	<b>217,723</b>	240,174	-9.35
Net (losses) gains on financial instruments at fair value through profit or loss	6	<b>(102,418)</b>	23,752	-531.20
Net (losses) gains on fair value hedge	6	<b>(20,679)</b>	13,294	-255.55
Other operating income	7	<b>404,855</b>	158,134	+156.02
Operating expenses	8	<u>(773,555)</u>	<u>(711,935)</u>	+8.66
		<b>541,247</b>	539,546	+0.32
Reversal of impairment allowances (impairment allowances) on loans and advances	15	<b>107,188</b>	(17,785)	-702.69
Net losses on disposal of property and equipment		<b>(4,128)</b>	(79)	+5,125.32
Net gains on disposal of available-for-sale securities		<b>697</b>	14,445	-95.17
Net gains on disposal of and fair value adjustments on investment properties	16	<b>9,065</b>	15,895	-42.97
Impairment losses on available-for-sale securities		<b>(4,473)</b>	(2,739)	+63.31
Share of profits of jointly controlled entities		<b>18,056</b>	19,036	-5.15
Profit before taxation		<b>667,652</b>	568,319	+17.48
Taxation	9	<u>(108,197)</u>	<u>(92,157)</u>	+17.41
Profit for the year - attributable to owners of the Bank		<b>559,455</b>	476,162	+17.49
Earnings per share - basic	11	<b>HK\$1.29</b>	HK\$1.09	+17.49

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the year	<u><b>559,455</b></u>	<u>476,162</u>
Other comprehensive income		
Exchange differences arising on translation	<b>6,547</b>	7,053
Surplus on remeasurement of retirement benefits	<b>10,268</b>	–
Income tax effect relating to retirement benefits	<b>(1,694)</b>	–
Fair value (losses) gains of available-for-sale securities arising during the year	<b>(89,234)</b>	71,383
Amount reclassified to the profit or loss upon disposal / impairment of available-for-sale securities	<b>3,776</b>	(11,706)
Share of reserves of jointly controlled entities	<b>(53)</b>	145
Income tax effect relating to fair value change of available-for-sale securities	<u><b>13,098</b></u>	<u>(8,930)</u>
Other comprehensive (expense) income for the year (net of tax)	<u><b>(57,292)</b></u>	<u>57,945</u>
Total comprehensive income for the year	<u><b>502,163</b></u>	<u>534,107</u>
Total comprehensive income attributable to:		
Owners of the Bank	<u><b>502,163</b></u>	<u>534,107</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	2011 HK\$'000	2010 HK\$'000	Variance %
<b>Assets</b>				
Cash and short-term funds	12	18,659,276	18,249,365	+2.25
Placements with banks and other financial institutions maturing between one to twelve months		2,169,007	2,282,122	-4.96
Derivative financial instruments	13	129,556	20,542	+530.69
Financial assets at fair value through profit or loss	14	1,845,589	1,774,453	+4.01
Available-for-sale securities	14	1,846,485	1,212,428	+52.30
Held-to-maturity securities	14	8,288,082	10,878,046	-23.81
Advances and other accounts	15	43,247,956	38,835,820	+11.36
Tax recoverable		-	6	-100.00
Interests in jointly controlled entities		153,872	136,919	+12.38
Investment properties	16	127,171	116,400	+9.25
Property and equipment	17	918,968	729,771	+25.93
Prepaid lease payments for land	18	2,483	2,535	-2.05
Deferred tax assets	24	6,721	-	-
Goodwill	25	50,606	50,606	-
<b>Total assets</b>		<u>77,445,772</u>	<u>74,289,013</u>	+4.25
<b>Liabilities</b>				
Deposits and balances of banks and other financial institutions		1,086,836	1,039,991	+4.50
Financial assets sold under repurchase agreements	19	420,652	-	-
Deposits from customers	20	64,815,713	63,500,219	+2.07
Certificates of deposit	21	1,545,562	-	-
Derivative financial instruments	13	265,696	256,426	+3.62
Other accounts and accruals		558,495	442,834	+26.12
Current tax liabilities		31,176	50,106	-37.78
Loan capital	22	1,852,153	2,401,151	-22.86
Deferred tax liabilities	24	6,897	20,357	-66.12
<b>Total liabilities</b>		<u>70,583,180</u>	<u>67,711,084</u>	+4.24
<b>Equity attributable to owners of the Bank</b>				
Share capital	23	217,500	217,500	-
Reserves		6,645,092	6,360,429	+4.48
<b>Total equity</b>		<u>6,862,592</u>	<u>6,577,929</u>	+4.33
<b>Total liabilities and equity</b>		<u>77,445,772</u>	<u>74,289,013</u>	+4.25

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share	Share		Investment	General	Translation	Regulatory	Retained	Total
		capital	premium	Goodwill	revaluation	reserve	reserve	reserve	profits	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2011		217,500	1,542,817	(182)	106,220	1,388,500	15,101	331,000	2,976,973	6,577,929
Profit for the year		-	-	-	-	-	-	-	559,455	559,455
Exchange differences arising on translation		-	-	-	-	-	6,547	-	-	6,547
Fair value losses of available-for-sale securities arising during the year		-	-	-	(89,234)	-	-	-	-	(89,234)
Amount reclassified to the profit or loss upon disposal / impairment of available-for-sale securities		-	-	-	3,776	-	-	-	-	3,776
Surplus on remeasurement of retirement benefits		-	-	-	-	-	-	-	10,268	10,268
Income tax effect relating to retirement benefits		-	-	-	-	-	-	-	(1,694)	(1,694)
Share of reserves of jointly controlled entities		-	-	-	(53)	-	-	-	-	(53)
Income tax effect relating to fair value change of available-for-sale securities		-	-	-	13,098	-	-	-	-	13,098
Other comprehensive (expense) income		-	-	-	(72,413)	-	6,547	-	8,574	(57,292)
Total comprehensive (expense) income for the year		-	-	-	(72,413)	-	6,547	-	568,029	502,163
Interim dividend paid for financial year 2011	10	-	-	-	-	-	-	-	(65,250)	(65,250)
Final dividend paid for financial year 2010	10	-	-	-	-	-	-	-	(152,250)	(152,250)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	77,000	(77,000)	-
<b>At 31 December 2011</b>		<b>217,500</b>	<b>1,542,817</b>	<b>(182)</b>	<b>33,807</b>	<b>1,388,500</b>	<b>21,648</b>	<b>408,000</b>	<b>3,250,502</b>	<b>6,862,592</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Share capital	Share premium	Goodwill	Investment revaluation reserve	General reserve	Translation reserve	Regulatory reserve	Retained profits	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 1 January 2010</b>		217,500	1,542,817	(182)	55,328	1,388,500	8,048	287,000	2,675,311	6,174,322
Profit for the year		-	-	-	-	-	-	-	476,162	476,162
Exchange differences arising on translation		-	-	-	-	-	7,053	-	-	7,053
Fair value gains of available-for-sale securities arising during the year		-	-	-	71,383	-	-	-	-	71,383
Amount reclassified to the profit or loss upon disposal / impairment of available-for-sale securities		-	-	-	(11,706)	-	-	-	-	(11,706)
Share of reserves of jointly controlled entities		-	-	-	145	-	-	-	-	145
Income tax effect relating to fair value change of available-for-sale securities		-	-	-	(8,930)	-	-	-	-	(8,930)
Other comprehensive income		-	-	-	50,892	-	7,053	-	-	57,945
Total comprehensive income for the year		-	-	-	50,892	-	7,053	-	476,162	534,107
Interim dividend paid for financial year 2010	10	-	-	-	-	-	-	-	(43,500)	(43,500)
Final dividend paid for financial year 2009	10	-	-	-	-	-	-	-	(87,000)	(87,000)
Earmark of retained profits as regulatory reserve		-	-	-	-	-	-	44,000	(44,000)	-
<b>At 31 December 2010</b>		<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>106,220</u>	<u>1,388,500</u>	<u>15,101</u>	<u>331,000</u>	<u>2,976,973</u>	<u>6,577,929</u>

The retained profits of the Group included retained profits of HK\$37,896,000 (2010: retained profits of HK\$20,890,000) retained by the jointly controlled entities 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 general reserve comprises transfers from previous years' retained profits.

## CONSOLIDATED STATEMENT OF CASH FLOWS

	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	667,652	568,319
Adjustments for:		
Net interest income	(815,321)	(816,127)
Net losses on disposal of property and equipment	4,128	79
Net gains on disposal of and fair value adjustments on investment properties	(9,065)	(15,895)
Net gains on disposal of available-for-sale securities	(697)	(14,445)
Net losses (gains) on fair value hedge	20,679	(13,294)
(Reversal of impairment allowances) impairment allowances on loans and advances	(107,188)	17,785
Impairment loss on available-for-sale securities	4,473	2,739
Dividend income from investments	(9,820)	(7,733)
Share of profits of jointly controlled entities	(18,056)	(19,036)
Depreciation	54,742	55,117
Release of prepaid lease payments for land	66	66
Exchange adjustments	2,204	4,361
Operating cash flows before movements in operating assets and liabilities	(206,203)	(238,064)
(Increase) decrease in operating assets:		
Other accounts	(41,491)	118,990
Placements with banks and other financial institutions with original maturity over three months	506,294	733,321
Exchange fund bills with original maturity over three months	299,500	(130,665)
Money at call and short notice with original maturity over three months	(987,888)	2,271,530
Bills receivable	(39,104)	(61,639)
Trade bills	(160,002)	(24,221)
Other advances to customers	(3,038,660)	(5,053,440)
Advances to banks and other financial institutions	(980,509)	(524,900)
Financial assets at fair value through profit or loss	(71,136)	(1,197,723)
Increase (decrease) in operating liabilities:		
Deposits from customers	1,315,494	2,711,804
Certificates of deposit	1,545,562	–
Deposits and balances of banks and other financial institutions with original maturity over three months	(581)	996
Financial assets sold under repurchase agreements	420,652	–
Other accounts and accruals	64,126	(168,882)
Derivative financial instruments	54,607	106,536
Cash used in operations	(1,319,339)	(1,456,357)
Hong Kong Profits Tax paid	(118,437)	(23,846)
Overseas tax paid	(17,461)	(2,302)
Interest received	1,112,206	824,345
Interest paid	(436,416)	(292,728)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(779,447)</b>	<b>(950,888)</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS - continued

	2011 HK\$'000	2010 HK\$'000
<b>INVESTING ACTIVITIES</b>		
Interest received on available-for-sale securities and held-to-maturity securities	222,805	317,065
Dividends received on investments	9,820	7,733
Dividend received from jointly controlled entities	1,050	1,680
Purchase of held-to-maturity securities	(6,786,192)	(28,536,272)
Purchase of available-for-sale securities	(703,916)	(944,791)
Purchase of property and equipment	(247,951)	(22,162)
Proceeds from redemption of held-to-maturity securities	9,376,156	34,612,692
Proceeds from sale and redemption of available-for-sale securities	39,972	60,413
Proceeds from disposal of property and equipment	–	125
Proceeds from disposal of investment properties	–	635
<b>NET CASH GENERATED FROM INVESTING ACTIVITIES</b>	<b><u>1,911,744</u></b>	<b><u>5,497,118</u></b>
<b>FINANCING ACTIVITIES</b>		
Interest paid on loan capital	(64,325)	(12,654)
Net proceeds from issue of loan capital	–	1,738,324
Repurchase of loan capital	(783,196)	(190,250)
Dividends paid	(217,500)	(130,500)
<b>NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES</b>	<b><u>(1,065,021)</u></b>	<b><u>1,404,920</u></b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>67,276</b>	<b>5,951,150</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>	<b><u>17,025,454</u></b>	<b><u>11,074,304</u></b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	<b><u><u>17,092,730</u></u></b>	<b><u><u>17,025,454</u></u></b>
Represented by:		
Cash and balances with banks and other financial institutions	6,393,092	11,677,098
Money at call and short notice with original maturity of less than three months	7,549,078	5,843,461
Exchange fund bills with original maturity of less than three months	3,299,912	–
Placements with banks and other financial institutions with original maturity of less than three months	664,188	271,009
Deposits and balances of banks and other financial institutions with original maturity of less than three months	(813,540)	(766,114)
	<b><u><u>17,092,730</u></u></b>	<b><u><u>17,025,454</u></u></b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 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 2011 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 2010 except that the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

Except as described below, the adoption of the new HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

### **Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")**

In the current year, the bank and its subsidiaries (collectively referred to as the "Group") has applied a number of new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Except as described below, the adoption of the new and revised Standards, amendments and Interpretation in the current year has had no material effect on the amounts reported in these consolidated financial statements and / or disclosures set out in these consolidated financial statements.

The Group has early adopted HKAS 19 (as revised in 2011) in advance of its effective date 1 January 2013. The amendments to HKAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the "corridor approach" permitted under the previous version of HKAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statements of financial position to reflect the full value of the plan deficit or surplus.

The amendments to HKAS 19 require retrospective application with certain exceptions. The application of the amendments to HKAS 19 did not have a significant impact on amounts reported in respect of the Bank's defined benefit plans for the current year. The management of the Bank has performed analysis of the impact of the application of the amendments and determined that it had no significant impact on the consolidated financial statements for prior years and accordingly, comparative figures presented in the consolidated financial statements have not been restated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

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

Amendments to HKFRS 7	Disclosures - Transfers of financial assets <sup>1</sup> Disclosures - Offsetting financial assets and financial liabilities <sup>2</sup> Mandatory effective date of HKFRS 9 and transition disclosures <sup>3</sup>
HKFRS 9	Financial instruments <sup>3</sup>
HKFRS 10	Consolidated financial statements <sup>2</sup>
HKFRS 11	Joint arrangements <sup>2</sup>
HKFRS 12	Disclosure of interests in other entities <sup>2</sup>
HKFRS 13	Fair value measurement <sup>2</sup>
Amendments to HKAS 1	Presentation of items of other comprehensive income <sup>4</sup>
Amendments to HKAS 12	Deferred tax - Recovery of underlying assets <sup>5</sup>
HKAS 27 (as revised in 2011)	Separate financial statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures <sup>2</sup>
Amendments to HKAS 32	Offsetting financial assets and financial liabilities <sup>6</sup>
HK(IFRIC) - INT 20	Stripping costs in the production phase of a surface mine <sup>2</sup>

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

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

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015.

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

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

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2014.

#### **Amendments to HKFRS 7 Disclosures - Transfers of financial assets**

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The management of the Bank anticipated that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The management of the Bank anticipated that the adoption of the amendments to HKAS 32 and HKFRS 7 may affect the Group's disclosure regarding offsetting financial assets and financial liabilities in the future.

#### **HKFRS 9 Financial instruments**

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

Key requirements of HKFRS 9 are described as follows:

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

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

The Group is considering the implications of HKFRS 9, the impact on the Group and the timing of its adoption by the Group.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### **New and revised Standards on consolidation, joint arrangements, associates and disclosures**

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below:

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and separate financial statements” that deal with consolidated financial statements and HK(SIC) - INT 12 “Consolidation - Special purpose entities”. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 “Interests in joint ventures” and HK(SIC) - INT 13 “Jointly controlled entities - Non-monetary contributions by venturers”. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and / or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The management of the Bank anticipated that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The management of the Bank anticipated that application of these five standards will have no significant impact on amounts reported in the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### **HKFRS 13 Fair value measurement**

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

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

The management of the Bank anticipated that HKFRS 13 will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

#### **Amendments to HKAS 1 Presentation of items of other comprehensive income**

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive 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 to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### Amendments to HKAS 12 Deferred tax - Recovery of underlying assets

The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The amendments to HKAS 12 are effective for annual periods beginning on or after 1 January 2012. The management of the Bank anticipated that the application of the amendments to HKAS 12 in future accounting periods may result in adjustments to the amounts of deferred tax liabilities recognised for investment properties that are measured using the fair value model. As at 31 December 2011, the deferred tax liabilities have been measured on the basis that the carrying amounts of the Group's investment properties will be recovered through use. The management of the Bank consider that, if the presumption is not rebutted, the deferred tax liabilities of the Group arising from these investing properties may be reduced by HK\$10,140,000.

The management of the Bank anticipated that the application of the other new and revised Standards, amendments or Interpretation will have no material impact on the consolidated financial statements.

### 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 are as follows:

The corporate and retail banking services provided by the Group are principally lending and trade finance facilities, 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 fully 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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (a) Operating segments - continued

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

#### Operating segment revenues and results

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (a) Operating segments - continued

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

#### Operating segment assets and liabilities as at 31 December 2011

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

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

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

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. Costs and support functions' costs related to corporate activities that cannot be reasonably allocated to segments or products are grouped as unallocated corporate expenses.

Other than the 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 STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2010 is presented below:

#### Operating segment revenues and results

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Interest income from external customers	675,228	500,986	2,368	-	-	1,178,582
Interest expense to external customers	(331,914)	(30,541)	-	-	-	(362,455)
Inter-segment interest income (Note 1)	138,757	-	-	-	(138,757)	-
Inter-segment interest expense (Note 1)	-	(138,757)	-	-	138,757	-
Net interest income	482,071	331,688	2,368	-	-	816,127
Fee and commission income	108,890	-	182,873	-	-	291,763
Fee and commission expense	(50,674)	-	(915)	-	-	(51,589)
Net gains (losses) on financial assets at fair value through profit or loss	550	25,282	-	(2,080)	-	23,752
Net gains on fair value hedge	-	13,294	-	-	-	13,294
Other operating income	77,138	46,276	(30)	34,750	-	158,134
Segment revenue						
Total operating income	617,975	416,540	184,296	32,670	-	1,251,481
Comprising:						
- segment revenue from external customers	479,218	555,297	184,296	32,670		
- inter-segment transactions	138,757	(138,757)	-	-		
Operating expenses (Note 2)	(422,988)	(26,720)	(57,839)	(10,105)	-	(517,652)
Impairment allowances on loans and advances	(17,785)	-	-	-	-	(17,785)
Net losses on disposal of property and equipment	(79)	-	-	-	-	(79)
Net gains on disposal of available-for-sale securities	-	-	-	14,445	-	14,445
Net gains on disposal of and fair value adjustments on investment properties	-	-	-	15,895	-	15,895
Impairment loss on available-for-sale securities	-	(2,739)	-	-	-	(2,739)
Segment profit	177,123	387,081	126,457	52,905	-	743,566
Unallocated corporate expenses						(194,283)
						549,283
Share of profits of jointly controlled entities						19,036
Profit before taxation						568,319

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (a) Operating segments - continued

(ii) Operating segment information for the year ended 31 December 2010 is presented below: - continued

#### Operating segment assets and liabilities as at 31 December 2010

	Corporate and retail banking HK\$'000	Treasury activities HK\$'000	Securities dealing HK\$'000	Others HK\$'000	Consolidated HK\$'000
<b>Assets</b>					
Segment assets	50,693,796	22,512,224	223,495	423,685	73,853,200
Interests in jointly controlled entities					136,919
Other unallocated corporate assets					<u>298,894</u>
Consolidated total assets					<u><u>74,289,013</u></u>
<b>Liabilities</b>					
Segment liabilities	63,652,994	3,730,762	131,636	47,437	67,562,829
Unallocated corporate liabilities					<u>148,255</u>
Consolidated total liabilities					<u><u>67,711,084</u></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 dealing HK\$'000	Others HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Capital expenditure	10,995	276	832	149	9,910	22,162
Depreciation	31,589	1,653	5,650	538	15,687	55,117
Release of prepaid lease payments for land	66	-	-	-	-	66
Impairment losses on available-for-sale securities	<u>-</u>	<u>(2,739)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,739)</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3. SEGMENT INFORMATION - continued

#### (b) Geographical information

Geographical information (including 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:

	2011						
	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	1,211,607	588,642	75,408,635	69,606,383	17,496,575	1,240,016	247,621
Macau and Shantou, Mainland China	89,786	72,124	1,490,218	889,429	263,082	12,913	234
America	13,409	6,886	546,919	87,368	37,677	172	96
Total	<u>1,314,802</u>	<u>667,652</u>	<u>77,445,772</u>	<u>70,583,180</u>	<u>17,797,334</u>	<u>1,253,101</u>	<u>247,951</u>

  

	2010						
	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	1,219,792	556,055	72,771,971	66,984,755	17,746,582	1,020,521	20,959
Macau and Shantou, Mainland China	18,176	5,140	974,891	607,733	206,307	15,584	1,166
America	13,513	7,124	542,151	118,596	42,960	132	37
Total	<u>1,251,481</u>	<u>568,319</u>	<u>74,289,013</u>	<u>67,711,084</u>	<u>17,995,849</u>	<u>1,036,237</u>	<u>22,162</u>

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

*Non-current assets consist of interests in jointly controlled entities, investment properties, property and equipment, prepaid lease payments for land and goodwill.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4. NET INTEREST INCOME

	2011 HK\$'000	2010 HK\$'000
Interest income		
Short-term funds and placements	281,526	172,253
Investments in securities	260,547	323,845
Loans and advances	797,409	667,788
Interest rate swaps	30,507	14,696
	<u>1,369,989</u>	<u>1,178,582</u>
Interest expense		
Deposits and balances from banks and customers	(449,237)	(334,754)
Financial assets sold under repurchase agreements	(4,084)	–
Certificates of deposit	(7,126)	–
Loan capital in issue	(73,635)	(23,492)
Interest rate swaps	(20,586)	(4,209)
	<u>(554,668)</u>	<u>(362,455)</u>
Net interest income	<u>815,321</u>	<u>816,127</u>
Included within interest income		
Interest income on impaired loans and advances	<u>1,214</u>	<u>695</u>

Included within interest income and interest expense are HK\$1,297,997,000 (2010: HK\$1,159,890,000) and HK\$534,082,000 (2010: HK\$358,246,000) for financial assets and financial liabilities that are not at fair value through profit or loss, respectively.

Included above is interest income from unlisted investments in securities of HK\$260,547,000 (2010: HK\$323,845,000).

### 5. NET FEE AND COMMISSION INCOME

	2011 HK\$'000	2010 HK\$'000
Fee and commission income		
Securities dealings	152,105	182,873
Credit lines	13,364	14,010
Trade finance	11,381	10,902
Credit card services	63,620	55,435
Agency services	22,262	17,898
Others	13,525	10,645
Total fee and commission income	<u>276,257</u>	<u>291,763</u>
Less: Fee and commission expense	<u>(58,534)</u>	<u>(51,589)</u>
Net fee and commission income	<u>217,723</u>	<u>240,174</u>
of which:		
Net fee income, other than amounts included in determining the effective interest rate, arising from financial assets or financial liabilities that are not held for trading nor designated at fair value through profit or loss		
- fee income	96,043	85,280
- fee expense	<u>(57,547)</u>	<u>(48,811)</u>
	<u>38,496</u>	<u>36,469</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	2011 HK\$'000	2010 HK\$'000
Net (losses) gains on financial instruments at fair value through profit or loss		
- designated at fair value through profit or loss	(47,833)	23,717
- held for trading	<u>(54,585)</u>	<u>35</u>
	<u>(102,418)</u>	<u>23,752</u>
Net (losses) gains on fair value hedge		
- net (losses) gains on hedged items attributable to the hedged risk	(175,030)	98,560
- net gains (losses) on hedging instruments	<u>154,351</u>	<u>(85,266)</u>
	<u>(20,679)</u>	<u>13,294</u>

### 7. OTHER OPERATING INCOME

	2011 HK\$'000	2010 HK\$'000
Dividend income		
Listed investments	6,128	3,876
Unlisted investments	3,692	3,857
Net gains on dealing in foreign currencies	54,168	46,276
Gross rents from investment properties	14,424	14,067
Less: Outgoings	(1,133)	(885)
Net rental income	13,291	13,182
Safe deposit box rentals	32,181	27,235
Insurance underwriting premium less claims and commission expense	11,372	11,675
Other banking services income	44,154	45,044
Recovery of amounts previously written-off in relation to Minibonds Repurchase Scheme ( <i>Note</i> )	234,632	-
Others	<u>5,237</u>	<u>6,989</u>
	<u>404,855</u>	<u>158,134</u>

*Note: The Bank announced on 28 March 2011 that it has entered into an agreement (“Agreement”) with the Lehman Brothers, the trustee and the receiver for the Lehman Brothers minibonds (“Minibonds”), and fifteen other distributing banks in relation to the recovery of the Minibonds underlying collateral (“Collateral”). Pursuant to the Agreement, the Bank received recoveries of amounts previously written-off in the years 2009 and 2010 (included in “Expenses relating to Minibonds Repurchase Scheme” in the consolidated financial statements for the years 2009 and 2010) from the Collateral during the period, net of ex-gratia payments to customers who held the Minibonds, amounting to HK\$234,632,000.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. OPERATING EXPENSES

	2011 HK\$'000	2010 HK\$'000
Auditor's remuneration	4,141	3,896
Staff costs (including directors' emoluments)		
Salaries and other costs	401,432	378,523
Retirement benefits scheme contributions	28,672	23,618
Total staff costs	430,104	402,141
Depreciation	54,742	55,117
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	47,540	44,462
Others	21,085	20,364
Expenses relating to Minibonds Repurchase Scheme ( <i>Note</i> )	–	16,221
Other operating expenses	215,877	169,668
	<u>773,555</u>	<u>711,935</u>

Included in the premises and equipment expenses are minimum lease payments under operating lease of HK\$41,243,000 (2010: HK\$38,683,000).

*Note: The Bank announced on 22 July 2009 that it had, without admission of any liability, entered into an agreement ("Repurchase Scheme") with the Securities and Futures Commission, the Hong Kong Monetary Authority and fifteen other distributing banks in relation to the repurchase of the Lehman Brothers Minibonds ("Minibonds"). The amount paid to repurchase the Minibonds together with other expenses under the Repurchase Scheme, amounting to HK\$16,221,000 in 2010, represents expenses incurred by the Bank to compensate its customers who had suffered from the collapse of the Lehman Brothers Group.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9. TAXATION

	2011 HK\$'000	2010 HK\$'000
The tax charge comprises:		
Hong Kong Profits Tax		
- current year	99,708	87,768
- (over) under provision in prior years	<u>(299)</u>	<u>2,938</u>
	99,409	90,706
Overseas taxation		
- current year	17,983	2,152
- over provision in prior years	(418)	(356)
Deferred tax ( <i>Note 24</i> )	<u>(8,777)</u>	<u>(345)</u>
	<u>108,197</u>	<u>92,157</u>

Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profit for the year.

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

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

	2011 HK\$'000	2010 HK\$'000
Profit before taxation	<u>667,652</u>	<u>568,319</u>
Tax at the domestic income tax rate of 16.5% (2010: 16.5%)	110,163	93,773
Tax effect of share of profits of jointly controlled entities	(2,979)	(3,141)
Tax effect of expenses not deductible for tax purpose	3,610	414
Tax effect of income not taxable for tax purpose	(2,672)	(3,794)
(Over) under provision in prior years	(717)	2,582
Effect of different tax rates of subsidiaries and branches operating in other jurisdictions	1,630	295
Others	<u>(838)</u>	<u>2,028</u>
Tax charge for the year	<u>108,197</u>	<u>92,157</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 10. DIVIDENDS

	2011 HK\$'000	2010 HK\$'000
Dividends recognised as distribution during the year:		
2011 Interim - HK\$0.15 (2010: 2010 Interim - HK\$0.10) per share	65,250	43,500
2010 Final - HK\$0.35 (2010: 2009 Final - HK\$0.20) per share	<u>152,250</u>	<u>87,000</u>
	<u>217,500</u>	<u>130,500</u>

The final cash dividend of HK\$0.35 per share, totalling HK\$152,250,000, in respect of the current financial year (2010: HK\$0.35 per share, totalling HK\$152,250,000) has been proposed by the directors and is subject to approval by the shareholders in the next annual general meeting.

### 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\$559,455,000 (2010: HK\$476,162,000) and on 435,000,000 (2010: 435,000,000) ordinary shares in issue during the year.

No dilution earnings per share was presented as there was no potential ordinary shares were in issue for the year ended 31 December 2011 (2010: nil).

### 12. CASH AND SHORT-TERM FUNDS

	2011 HK\$'000	2010 HK\$'000
Cash and balances with banks and other financial institutions	6,393,092	11,677,098
Money at call and short notice	8,717,815	6,024,310
Exchange fund bills	<u>3,548,369</u>	<u>547,957</u>
	<u>18,659,276</u>	<u>18,249,365</u>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. DERIVATIVE FINANCIAL INSTRUMENTS

	2011			2010		
	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	1,318,444	8,181	5,783	499,321	247	1,784
- Interest rate swaps	1,359,407	5,320	190,608	1,343,081	2,610	142,130
- Cross-currency interest rate swap	40,360	-	6,719	38,360	-	4,819
Derivatives designated as hedging instruments						
- Interest rate swaps	3,161,088	116,055	51,907	2,467,306	15,033	104,887
- Cross-currency interest rate swaps	233,306	-	10,679	233,306	2,652	2,806
		<u>129,556</u>	<u>265,696</u>		<u>20,542</u>	<u>256,426</u>

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

	2011			2010		
	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000	Notional amount HK\$'000	Replacement cost HK\$'000	Credit risk weighted amount HK\$'000
Exchange rate contracts	1,592,110	8,181	14,662	770,987	2,899	8,939
Interest rate contracts	4,520,495	<u>121,375</u>	<u>38,601</u>	3,810,387	<u>17,643</u>	<u>13,285</u>
		<u>129,556</u>	<u>53,263</u>		<u>20,542</u>	<u>22,224</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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, taking the resultant value of the existing transaction or existing contract. If the resultant value is negative for the Group, taking the resultant value of the existing transaction or contract as zero. Replacement cost is a close approximation of the credit risk for these contracts at the end of the reporting period.

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

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

#### **Fair value hedge of fixed-rate bonds**

The Group designates certain interest rate swaps and cross-currency interest rate swaps as fair value hedges of the fair value of available-for-sale debt securities with carrying amounts of HK\$1,638,649,000 (2010: HK\$942,855,000) as at 31 December 2011. The purpose is to minimise its exposure to fair value changes of its fixed-rate bonds by swapping fixed-rate bonds from fixed rates to floating rates. The interest rate swaps and cross-currency interest rate swaps and the corresponding fixed-rate bonds have the same terms and management of the Group considers that the interest rate swaps and cross-currency interest rate swaps are highly effective hedging instruments.

During the years ended 31 December 2011 and 2010, the above fair value hedges were effective in hedging the fair value exposures to interest rate movements and as a result, both the gains in fair value of the bonds of HK\$59,347,000 (2010: losses of HK\$15,982,000) and losses in fair value of the interest rate swaps of HK\$50,107,000 (2010: gains of HK\$7,186,000) and cross-currency interest rate swaps of HK\$8,354,000 (2010: gains of HK\$4,407,000) were included in the consolidated income statement.

#### **Fair value hedge of subordinated note issued**

The Group designates an interest rate swap as fair value hedge of the fair value change of the interest rate movement of the US\$225 million subordinated notes issued (see note 22 for details). The purpose is to minimise its exposure to fair value changes of its fixed-rate notes by swapping fixed-rate notes 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 losses in fair value of the notes of HK\$234,377,000 (2010: gains of HK\$114,542,000) and gains in fair value of the interest rate swap of HK\$212,812,000 (2010: losses of HK\$96,859,000) were included in the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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			
<b>2011</b>					
Equity securities:					
Listed in Hong Kong	307	-	166,834	-	167,141
Listed overseas	-	-	6,952	-	6,952
	<u>307</u>	<u>-</u>	<u>173,786</u>	<u>-</u>	<u>174,093</u>
Unlisted	-	-	33,053	-	33,053
	<u>307</u>	<u>-</u>	<u>206,839</u>	<u>-</u>	<u>207,146</u>
Debt securities:					
Certificates of deposit	-	-	-	1,571,244	1,571,244
Structured products	-	417,647	-	-	417,647
Convertible bonds	-	1,427,635	-	-	1,427,635
Other debt securities - Unlisted	-	-	1,639,646	6,716,838	8,356,484
	<u>-</u>	<u>1,845,282</u>	<u>1,639,646</u>	<u>8,288,082</u>	<u>11,773,010</u>
Total:					
Listed in Hong Kong	307	-	166,834	-	167,141
Listed overseas	-	-	6,952	-	6,952
Unlisted	-	1,845,282	1,672,699	8,288,082	11,806,063
	<u>307</u>	<u>1,845,282</u>	<u>1,846,485</u>	<u>8,288,082</u>	<u>11,980,156</u>
Market value of listed securities:					
Listed in Hong Kong	307	-	166,834	-	167,141
Listed overseas	-	-	6,952	-	6,952
	<u>307</u>	<u>-</u>	<u>173,786</u>	<u>-</u>	<u>174,093</u>
As analysed by issuing entities:					
Central government and central banks	-	-	-	130,797	130,797
Public sector entities	-	-	56,566	185,187	241,753
Banks and other financial institutions	58	417,647	255,574	6,823,243	7,496,522
Corporate entities	249	1,427,635	1,529,784	1,148,855	4,106,523
Others	-	-	4,561	-	4,561
	<u>307</u>	<u>1,845,282</u>	<u>1,846,485</u>	<u>8,288,082</u>	<u>11,980,156</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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			
<b>2010</b>					
Equity securities:					
Listed in Hong Kong	573	–	184,800	–	185,373
Listed overseas	–	–	10,471	–	10,471
	<u>573</u>	<u>–</u>	<u>195,271</u>	<u>–</u>	<u>195,844</u>
Unlisted	–	–	35,563	–	35,563
	<u>573</u>	<u>–</u>	<u>230,834</u>	<u>–</u>	<u>231,407</u>
Debt securities:					
Certificates of deposit	–	–	–	917,838	917,838
Structured products	–	305,385	–	–	305,385
Convertible bonds	–	1,468,495	–	–	1,468,495
Other debt securities - Unlisted	–	–	981,594	9,960,208	10,941,802
	<u>–</u>	<u>1,773,880</u>	<u>981,594</u>	<u>10,878,046</u>	<u>13,633,520</u>
Total:					
Listed in Hong Kong	573	–	184,800	–	185,373
Listed overseas	–	–	10,471	–	10,471
Unlisted	–	1,773,880	1,017,157	10,878,046	13,669,083
	<u>573</u>	<u>1,773,880</u>	<u>1,212,428</u>	<u>10,878,046</u>	<u>13,864,927</u>
Market value of listed securities:					
Listed in Hong Kong	573	–	184,800	–	185,373
Listed overseas	–	–	10,471	–	10,471
	<u>573</u>	<u>–</u>	<u>195,271</u>	<u>–</u>	<u>195,844</u>
As analysed by issuing entities:					
Central government and central banks	–	–	–	142,902	142,902
Public sector entities	–	–	56,267	93,779	150,046
Banks and other financial institutions	250	305,385	281,434	9,011,811	9,598,880
Corporate entities	323	1,468,495	867,656	1,629,554	3,966,028
Others	–	–	7,071	–	7,071
	<u>573</u>	<u>1,773,880</u>	<u>1,212,428</u>	<u>10,878,046</u>	<u>13,864,927</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. INVESTMENTS IN SECURITIES - continued

Unlisted debt securities classified as available-for-sale include financial instruments issued by structured investment vehicles with gross investment cost of approximately HK\$116,471,000 (2010: HK\$116,718,000). Impairment losses of approximately HK\$116,315,000 (2010: HK\$116,561,000) has been recognised for these investments. For the equity securities classified as available-for-sale financial instruments, impairment losses of approximately HK\$65,583,000 (2010: HK\$61,110,000) and HK\$36,262,000 (2010: HK\$36,262,000) has been recognised by the Group and the Bank respectively.

Included in structured products are credit linked notes of approximately HK\$372,141,000 (2010: HK\$259,327,000) and fund linked notes of approximately HK\$45,506,000 (2010: HK\$46,058,000). The credit linked notes held by the Group and the Bank bear 3-month LIBOR with spreads range from 1.3% to 2.0% per annum and a maturity range from 2015 to 2016. The note issuers are not obligated to repay the debt to the Group and the Bank if the reference entities (rated A1 or above by Moody's as at 31 December 2011 and 2010) default. The fund linked note held by the Group and the Bank bears zero coupon rate with a maturity in 2012. On its maturity date, the principal of the note is guaranteed by the issuer (rated A1 by Moody's as at 31 December 2011 and 2010) and the return is linked with the performance of an index developed by the issuer.

Unlisted equity securities classified as available-for-sale held by the Group and the Bank amounting to approximately HK\$32,974,000 (2010: HK\$32,974,000) and HK\$29,006,000 (2010: HK\$29,006,000) respectively are measured at cost less impairment because their fair value cannot be reliably measured. No impairment has been recognised.

Certain held-to-maturity certificates of deposit of approximately HK\$15,534,000 (2010: HK\$15,567,000) 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 approximately HK\$130,797,000 (2010: HK\$142,902,000) were issued by the Government of Hong Kong Special Administrative Region and the Government of the People's Republic of China ("PRC").

The convertible bonds and the debt securities classified as available-for-sale securities held by the Group and the Bank are mainly issued by corporates and financial institutions. The corporate issuers are mainly from the PRC and Hong Kong.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. ADVANCES AND OTHER ACCOUNTS

	2011 HK\$'000	2010 HK\$'000
Advances to customers		
Bills receivable	403,729	364,625
Trade bills	302,481	142,479
Other advances to customers	40,632,274	37,420,575
	<u>41,338,484</u>	<u>37,927,679</u>
Interest receivable	162,580	127,602
Impairment allowances		
- Individually assessed	(40,553)	(21,564)
- Collectively assessed	(172,015)	(125,089)
	<u>41,288,496</u>	<u>37,908,628</u>
Advances to banks and other financial institutions	1,505,409	524,900
	<u>42,793,905</u>	<u>38,433,528</u>
Other accounts	454,051	402,292
	<u>43,247,956</u>	<u>38,835,820</u>

Included in the “Other Accounts” of the Group is an amount of approximately HK\$200,762,000 (2010: HK\$104,862,000) placed as reserve funds with the financial institutions in the PRC by the Shantou Branch of the Bank. Among which, HK\$88,493,000 (2010: HK\$9,312,000) and HK\$19,249,000 (2010: HK\$4,396,000) is the mandatory reserve deposit and surplus reserve deposits placed with the People’s Bank of China respectively; HK\$93,020,000 (2010: HK\$91,154,000) is the fixed deposits placed with other financial institutions in the PRC in compliance with the requirements of Regulations Governing Foreign Financial Institutions of the PRC.

Impairment allowances on advances:

	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
Balance at 1 January 2011	21,564	125,089	146,653
Increase in impairment allowances	29,575	46,862	76,437
Amounts reversed	(183,625)	–	(183,625)
Amounts written off	(1,847)	–	(1,847)
Recoveries of advances written off in previous years	176,100	–	176,100
Unwinding effect of discount rate	(1,214)	–	(1,214)
Exchange difference	–	64	64
Balance at 31 December 2011	<u>40,553</u>	<u>172,015</u>	<u>212,568</u>
Balance at 1 January 2010	25,905	108,096	134,001
Increase in impairment allowances	11,556	16,926	28,482
Amounts reversed	(10,697)	–	(10,697)
Amounts written off	(5,185)	–	(5,185)
Recoveries of advances written off in previous years	680	–	680
Unwinding effect of discount rate	(695)	–	(695)
Exchange difference	–	67	67
Balance at 31 December 2010	<u>21,564</u>	<u>125,089</u>	<u>146,653</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. ADVANCES AND OTHER ACCOUNTS - continued

Details of the impaired loans are as follows:

	2011 HK\$'000	2010 HK\$'000
Gross impaired loans	78,189	35,610
Less: Impairment allowances under individual assessment	(40,553)	(21,564)
Net impaired loans	<u>37,636</u>	<u>14,046</u>
Gross impaired loans as a percentage of gross advances to customers	<u>0.19%</u>	<u>0.09%</u>
Market value of collateral pledged	<u>107,078</u>	<u>55,804</u>

### 16. INVESTMENT PROPERTIES

	2011 HK\$'000	2010 HK\$'000
At 1 January	116,400	103,199
Net increase in fair value recognised in the income statement	9,065	12,765
Disposals	–	(1,060)
Exchange adjustments	1,706	1,496
At 31 December	<u>127,171</u>	<u>116,400</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:

	2011 HK\$'000	2010 HK\$'000
Net gains on disposal of investment properties	–	3,130
Net gains on fair value adjustments on investment properties	9,065	12,765
	<u>9,065</u>	<u>15,895</u>

Investment properties owned by the Group were revalued at 31 December 2011 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 is in a reasonable condition at the end of the reporting period.

The investment properties are rented out under operating leases.

The carrying amount of investment properties of the Group comprises:

	2011 HK\$'000	2010 HK\$'000
Leasehold properties		
Held in Hong Kong on medium-term lease (10 - 50 years unexpired)	94,100	86,450
Held outside Hong Kong on medium-term lease (10 - 50 years unexpired)	33,071	29,950
	<u>127,171</u>	<u>116,400</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. PROPERTY AND EQUIPMENT

	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2011	396,264	316,663	515,369	1,228,296
Additions	166,154	55,729	26,068	247,951
Disposals	–	–	(36,330)	(36,330)
Exchange adjustments	–	–	227	227
At 31 December 2011	<u>562,418</u>	<u>372,392</u>	<u>505,334</u>	<u>1,440,144</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2011	83,303	47,266	367,956	498,525
Depreciation	6,775	6,697	41,270	54,742
Eliminated on disposals	–	–	(32,202)	(32,202)
Exchange adjustments	–	–	111	111
At 31 December 2011	<u>90,078</u>	<u>53,963</u>	<u>377,135</u>	<u>521,176</u>
<b>CARRYING AMOUNTS</b>				
At 31 December 2011	<u><u>472,340</u></u>	<u><u>318,429</u></u>	<u><u>128,199</u></u>	<u><u>918,968</u></u>
	Leasehold land HK\$'000	Buildings HK\$'000	Equipment HK\$'000	Total HK\$'000
<b>COST</b>				
At 1 January 2010	396,264	316,663	498,720	1,211,647
Additions	–	–	22,162	22,162
Disposals	–	–	(5,876)	(5,876)
Exchange adjustments	–	–	363	363
At 31 December 2010	<u>396,264</u>	<u>316,663</u>	<u>515,369</u>	<u>1,228,296</u>
<b>ACCUMULATED DEPRECIATION</b>				
At 1 January 2010	77,295	40,746	330,949	448,990
Depreciation	6,008	6,634	42,475	55,117
Eliminated on disposals	–	–	(5,672)	(5,672)
Exchange adjustments	–	(114)	204	90
At 31 December 2010	<u>83,303</u>	<u>47,266</u>	<u>367,956</u>	<u>498,525</u>
<b>CARRYING AMOUNTS</b>				
At 31 December 2010	<u><u>312,961</u></u>	<u><u>269,397</u></u>	<u><u>147,413</u></u>	<u><u>729,771</u></u>

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

Leasehold land and buildings	Over the shorter of the term of the lease or 2%
Equipment	10% -20%



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. PROPERTY AND EQUIPMENT - continued

The carrying amounts of leasehold land shown above comprise:

	2011 HK\$'000	2010 HK\$'000
Leasehold land in Hong Kong:		
Held on long-term lease (over 50 years unexpired)	121,490	121,851
Held on medium-term lease (10 - 50 years unexpired)	347,400	187,578
Leasehold land outside Hong Kong:		
Held on medium-term lease (10 - 50 years unexpired)	3,450	3,532
	<u>472,340</u>	<u>312,961</u>

The carrying amounts of buildings shown above comprise:

	2011 HK\$'000	2010 HK\$'000
Leasehold properties (building)		
Held in Hong Kong on long-term lease (over 50 years unexpired)	198,308	202,845
Held in Hong Kong on medium-term lease (10-50 years unexpired)	113,144	59,614
Held outside Hong Kong on medium-term lease (10-50 years unexpired)	6,977	6,938
	<u>318,429</u>	<u>269,397</u>

### 18. PREPAID LEASE PAYMENTS FOR LAND

The Group's prepaid lease payments for land comprise:

	2011 HK\$'000	2010 HK\$'000
<b>COST</b>		
Outside Hong Kong held on:		
Leases of between 10 to 50 years	2,483	2,535
Net book value at 1 January	2,535	2,564
Release of prepaid operating lease payments	(66)	(66)
Exchange adjustments	14	37
Net book value at 31 December	<u>2,483</u>	<u>2,535</u>
Analysed as:		
Current portion	66	66
Non-current portion	2,417	2,469
Total	<u>2,483</u>	<u>2,535</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

	2011 HK\$'000	2010 HK\$'000
Analysed by collateral type:		
Debt securities classified as:		
Available-for-sale	228,439	–
Held-to-maturity	<u>192,213</u>	<u>–</u>
	<u>420,652</u>	<u>–</u>

As at 31 December 2011, debt securities which are classified as available-for-sale and held-to-maturity with carrying amount of approximately HK\$295,717,000 (2010: Nil) and HK\$240,883,000 (2010: Nil) respectively were sold under repurchase agreements with other banks. All repurchase agreements are due within 12 months from the end of the reporting period.

### 20. DEPOSITS FROM CUSTOMERS

	2011 HK\$'000	2010 HK\$'000
Demand deposits and current accounts	4,501,674	4,389,690
Savings deposits	18,357,575	20,568,661
Time, call and notice deposits	<u>41,956,464</u>	<u>38,541,868</u>
	<u>64,815,713</u>	<u>63,500,219</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. CERTIFICATES OF DEPOSIT

During the year ended 31 December 2011, the Group issued certificates of deposit which are measured at amortised cost with a total carrying amount of HK\$1,545,562,000 as at 31 December 2011 (2010: Nil). Included in certificates of deposit are certificates of deposit of approximately HK\$248,151,000 issued at discount with zero coupon rate which will mature in 2012 and HK\$100,000,000 issued at the rate of three-month HIBOR plus 1% which will mature in 2013. The remaining certificates of deposit of approximately HK\$1,197,411,000 were issued at interest rate between 1.2% to 2.2% per annum which will mature in 2012. All certificates of deposit issued are not secured by any collateral.

### 22. LOAN CAPITAL

	2011 HK\$'000	2010 HK\$'000
Floating rate subordinated notes due 2016 at amortised cost ( <i>Note (a)</i> )	–	781,372
US\$225 million fixed rate subordinated notes due 2020 under fair value hedge (after adjustment of hedged interest rate risk) ( <i>Note (b)</i> )	<u>1,852,153</u>	<u>1,619,779</u>
	<u><b>1,852,153</b></u>	<u><b>2,401,151</b></u>

*Notes:*

- (a) *This represented subordinated notes qualifying as tier 2 capital issued on 15 December 2006. The maturity date of the notes is 16 December 2016 and the notes were redeemed and cancelled at the option of the Bank in December 2011 at their principal amount after receiving prior approval of the Hong Kong Monetary Authority (the “HKMA”). The notes bear interest at the rate of three-month LIBOR plus 0.93%, payable quarterly from the issue date to the call option date.*
- (b) *This represented subordinated notes qualifying as tier 2 capital with face value of US\$225,000,000 issued on 5 November 2010. The notes will mature on 4 November 2020. If at any time (on or) after 1 January 2013, the notes no longer fully qualify as term subordinated debts 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 notes by serving the “Change in Status Notice” to the noteholders. Upon a “Change in Status Notice” becoming effective, the notes shall thereafter constitute unsubordinated obligations and the rate of interest on the notes shall be reduced from 6% per annum to 5.5% per annum.*
- (c) *All subordinated notes issued are not secured by any collateral.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. SHARE CAPITAL

	2011 & 2010 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>

### 24. DEFERRED TAXATION

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

	2011 HK\$'000	2010 HK\$'000
Deferred tax assets	6,721	–
Deferred tax liabilities	<u>(6,897)</u>	<u>(20,357)</u>
	<u>(176)</u>	<u>(20,357)</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 2011	13,302	(20,031)	11,191	15,895	–	20,357
(Credit) charge to consolidated income statement for the year ( <i>Note 9</i> )	(2,762)	(7,838)	1,823	–	–	(8,777)
(Credit) charge to other comprehensive income for the year	–	–	–	(13,098)	1,694	(11,404)
At 31 December 2011	<u>10,540</u>	<u>(27,869)</u>	<u>13,014</u>	<u>2,797</u>	<u>1,694</u>	<u>176</u>
At 1 January 2010	15,533	(19,645)	8,919	6,965	–	11,772
(Credit) charge to consolidated income statement for the year ( <i>Note 9</i> )	(2,231)	(386)	2,272	–	–	(345)
Charge to other comprehensive income for the year	–	–	–	8,930	–	8,930
At 31 December 2010	<u>13,302</u>	<u>(20,031)</u>	<u>11,191</u>	<u>15,895</u>	<u>–</u>	<u>20,357</u>

Under the Enterprise Income Tax Law of the PRC, withholding tax is imposed on profits distributed by the Bank's PRC branch from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC branch amounting to HK\$159,590,000 (2010: HK\$104,173,000) 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 STATEMENTS

### 25. GOODWILL

	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>COST</b>		
At 1 January and 31 December	<b>110,606</b>	110,606
<b>IMPAIRMENT</b>		
At 1 January and 31 December	<u><b>60,000</b></u>	<u>60,000</u>
<b>CARRYING VALUES</b>		
At 31 December	<u><b>50,606</b></u>	<u>50,606</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 2011, management has reviewed goodwill for impairment. 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 and selection of discount rates (12%).

Value in use is derived at by discounting the expected future cash flows. Management's financial model assumes a flat growth in underwriting profit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 26. CONTINGENT LIABILITIES AND COMMITMENTS

	2011 HK\$'000	2010 HK\$'000
<b>Contingent liabilities and commitments</b>		
<b>- contractual amounts</b>		
Direct credit substitutes	1,163,474	1,148,074
Trade-related contingencies	373,802	361,532
Forward asset purchases	8,550	8,034
Other commitments:		
Which are unconditionally cancellable without prior notice	6,880,736	7,081,907
With an original maturity of one year and under	7,093,803	7,460,718
With an original maturity of over one year	2,210,112	1,862,256
Lease commitments	66,857	73,328
	<u>17,797,334</u>	<u>17,995,849</u>

The credit risk weighted amount of contingent liabilities and commitments is HK\$3,235,547,000 (2010: HK\$2,971,294,000).

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

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

	2011 HK\$'000	2010 HK\$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of property and equipment	<u>8,550</u>	<u>8,034</u>

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

	2011 HK\$'000	2010 HK\$'000
Within one year	32,258	35,260
In the second to fifth years inclusive	33,998	38,068
Over five years	601	–
	<u>66,857</u>	<u>73,328</u>

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

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

	2011 HK\$'000	2010 HK\$'000
Within one year	2,827	13,432
In the second to fifth years inclusive	640	2,611
	<u>3,467</u>	<u>16,043</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. 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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Investing enterprises having significant influence on the Bank and its subsidiaries	<u>7,777</u>	<u>7,733</u>	<u>25,205</u>	<u>23,553</u>
Jointly controlled entities	<u>16,757</u>	<u>12,711</u>	<u>3,317</u>	<u>3,185</u>
Key management personnel ( <i>Note</i> )	<u>6,514</u>	<u>5,803</u>	<u>9,524</u>	<u>7,875</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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Investing enterprises having significant influence on the Bank and its subsidiaries	<u>36,800</u>	<u>–</u>	<u>159,138</u>	<u>142,239</u>
Jointly controlled entities	<u>37,599</u>	<u>43,552</u>	<u>75,730</u>	<u>128,358</u>
Key management personnel ( <i>Note</i> )	<u>969,505</u>	<u>797,542</u>	<u>651,396</u>	<u>697,896</u>

The above outstanding balances bear interest at rates similar to those made available to non-related parties.

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

Amounts due to related parties are included in deposits from customers on 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:

	2011 HK\$'000	2010 HK\$'000
Short-term benefits	<u>61,726</u>	<u>52,534</u>
Post employment benefits	<u>4,286</u>	<u>3,187</u>
	<u>66,012</u>	<u>55,721</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.*

### 28. COMPARATIVE AMOUNTS

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

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 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 2011				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	2,320,064	2,531	-	725,399	-
- Property investment	8,865,657	-	2,120	8,761,108	1,773
- Financial concerns	2,429,291	-	-	1,285,610	-
- Stockbrokers	577,841	179	-	518,642	-
- Wholesale and retail trade	1,562,043	6,081	5,284	802,006	6,182
- Manufacturing	1,616,168	590	5,452	816,796	9,777
- Transport and transport equipment	881,549	-	-	469,532	-
- Recreational activities	1,089	5	-	1,089	-
- Information technology	424	52	-	178	-
- Others	8,015,559	31,083	6,324	3,393,053	25,598
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	527,447	-	-	527,443	-
- Loans for the purchase of other residential properties	6,459,070	257	-	6,456,622	-
- Credit card advances	76,156	5,507	228	6,698	314
- Others	1,686,550	7,117	5,914	1,323,649	9,897
	<u>35,018,908</u>	<u>53,402</u>	<u>25,322</u>	<u>25,087,825</u>	<u>53,541</u>
Trade finance	1,183,074	31,055	12,243	405,584	21,956
Loans for use outside Hong Kong	<u>5,136,502</u>	<u>87,558</u>	<u>2,988</u>	<u>2,285,455</u>	<u>2,692</u>
	<u><u>41,338,484</u></u>	<u><u>172,015</u></u>	<u><u>40,553</u></u>	<u><u>27,778,864</u></u>	<u><u>78,189</u></u>



## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 1. ADVANCES TO CUSTOMERS - BY INDUSTRY SECTORS - continued

	31 December 2010				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Loans and advances secured by collateral HK\$'000	Gross impaired advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial					
- Property development	1,554,102	3,870	–	403,798	–
- Property investment	8,125,124	–	1,179	7,481,839	1,773
- Financial concerns	2,256,049	3	–	1,406,878	–
- Stockbrokers	775,702	252	–	650,776	–
- Wholesale and retail trade	1,168,289	–	1,096	787,384	1,277
- Manufacturing	1,374,929	3,036	7,983	645,491	12,611
- Transport and transport equipment	1,118,264	–	–	318,203	–
- Recreational activities	1,078	4	–	846	–
- Information technology	359	38	–	123	–
- Others	8,020,036	25,876	2,221	3,503,235	3,339
Individuals					
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	589,467	–	6	589,467	6
- Loans for the purchase of other residential properties	6,199,566	386	–	6,199,458	–
- Credit card advances	102,259	2,075	136	–	175
- Others	1,279,645	–	54	1,203,997	55
	32,564,869	35,540	12,675	23,191,495	19,236
Trade finance	850,888	19,567	7,776	302,162	13,182
Loans for use outside Hong Kong	4,511,922	69,982	1,113	2,037,889	3,192
	<u>37,927,679</u>	<u>125,089</u>	<u>21,564</u>	<u>25,531,546</u>	<u>35,610</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 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 2011 and 2010 in respect of industry sectors which constitute not less than 10 per cent of gross advances to customers are analysed as follows:

	<b>2011</b>		
	<b>Advances overdue for over three months as at 31 December HK\$'000</b>	<b>New impairment allowances during the year HK\$'000</b>	<b>Advances written off during the year HK\$'000</b>
Loans for use in Hong Kong			
Industrial, commercial and financial			
- property investment	13,245	10	-
- others	28,918	7,220	-
Individuals			
- loans for the purchase of other residential properties	-	-	-
- loans for used outside Hong Kong	<u>2,692</u>	<u>5,431</u>	<u>-</u>
	<b>2010</b>		
	<b>Advances overdue for over three months as at 31 December HK\$'000</b>	<b>New impairment allowances during the year HK\$'000</b>	<b>Advances written off during the year HK\$'000</b>
Loans for use in Hong Kong			
Industrial, commercial and financial			
- property investment	13,178	19	-
- others	4,291	177	51
Individuals			
- loans for the purchase of other residential properties	2,746	173	-
- loans for used outside Hong Kong	<u>3,192</u>	<u>240</u>	<u>-</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 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:

	31 December 2011				
	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	39,707,568	94,937	75,497	39,440	161,768
People's Republic of China	622,384	2,692	2,692	1,113	4,141
Macau	114,711	-	-	-	669
America	451,395	-	-	-	5,437
Others	442,426	-	-	-	-
	<u>41,338,484</u>	<u>97,629</u>	<u>78,189</u>	<u>40,553</u>	<u>172,015</u>

	31 December 2010				
	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	36,379,383	61,482	32,418	20,451	115,968
People's Republic of China	344,543	3,192	3,192	1,113	2,964
Macau	133,795	-	-	-	709
America	426,380	-	-	-	5,448
Others	643,578	-	-	-	-
	<u>37,927,679</u>	<u>64,674</u>	<u>35,610</u>	<u>21,564</u>	<u>125,089</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 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:

	<b>2011</b>			
	<b>Banks and other financial institutions HK\$'000</b>	<b>Public sector entities HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
Asia Pacific excluding Hong Kong	15,487,390	918,826	734,718	17,140,934
- of which - China	8,456,240	857,526	571,831	9,885,597
- of which - Australia	2,815,725	2,223	-	2,817,948
Western Europe	<u>2,857,996</u>	<u>2,525</u>	<u>169,331</u>	<u>3,029,852</u>
	<b>2010</b>			
	<b>Banks and other financial institutions HK\$'000</b>	<b>Public sector entities HK\$'000</b>	<b>Others HK\$'000</b>	<b>Total HK\$'000</b>
Asia Pacific excluding Hong Kong	10,426,222	124,906	715,265	11,266,393
- of which - China	5,735,058	52,049	542,351	6,329,458
- of which - Australia	3,427,563	2,213	-	3,429,776
North America	1,608,580	32,981	1,607,133	3,248,694
Western Europe	7,775,750	2,501	168,397	7,946,648
- of which - France	<u>3,162,961</u>	-	<u>854</u>	<u>3,163,815</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 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:

	<b>2011</b>		
		<b>RMB</b>	
Equivalent in thousand of HK\$			
Spot assets			<b>6,496,856</b>
Spot liabilities			<b>(6,307,434)</b>
Forward purchases			<b>264,518</b>
Forward sales			<u><b>(383,066)</b></u>
Net long position			<u><u><b>70,874</b></u></u>
	<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position	<u><b>48,545</b></u>	<u><b>105,169</b></u>	<u><b>153,714</b></u>
		<b>2010</b>	
		<b>RMB</b>	<b>AUD</b>
Equivalent in thousand of HK\$			
Spot assets	2,134,499	3,099,254	5,233,753
Spot liabilities	(2,101,882)	(3,099,460)	(5,201,342)
Forward purchases	12,430	2,382	14,812
Forward sales	<u>–</u>	<u>(20,005)</u>	<u>(20,005)</u>
Net long position	<u><b>45,047</b></u>	<u><b>(17,829)</b></u>	<u><b>27,218</b></u>
	<b>MOP</b>	<b>RMB</b>	<b>Total</b>
Net structural position	<u><b>48,545</b></u>	<u><b>105,169</b></u>	<u><b>153,714</b></u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 5. OVERDUE AND RESCHEDULED ASSETS

	2011	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	30,179	0.1
- 1 year or less but over 6 months	16,141	0.0
- over 1 year	51,309	0.1
Total overdue advances	<u>97,629</u>	<u>0.2</u>
Rescheduled advances	<u>219,858</u>	<u>0.5</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>35,758</u>	

	2010	
	Gross amount of advances HK\$'000	Percentage to total advances %
Advances overdue for		
- 6 months or less but over 3 months	11,704	0.0
- 1 year or less but over 6 months	6,224	0.0
- over 1 year	46,746	0.1
Total overdue advances	<u>64,674</u>	<u>0.2</u>
Rescheduled advances	<u>264,476</u>	<u>0.7</u>
Individual impairment allowances made in respect of overdue loans and advances	<u>21,499</u>	

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

	2011 HK\$'000	2010 HK\$'000
Covered portion of overdue loans and advances	68,867	37,472
Uncovered portion of overdue loans and advances	28,762	27,202
	<u>97,629</u>	<u>64,674</u>
Market value of collateral held against covered portion of overdue loans and advances	<u>252,500</u>	<u>198,709</u>

There were no advances to banks and other financial institutions or other assets which were overdue for over 3 months as at 31 December 2011 and 31 December 2010, nor were there any rescheduled advances to banks and other financial institutions.

Reposessed assets held by the Group as at 31 December 2011 amounted to HK\$63,050,000 (2010: HK\$17,004,000).

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 6. NON-BANK MAINLAND EXPOSURES

	31 December 2011			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Types of counterparties				
Mainland entities	1,870,137	231,133	2,101,270	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	4,572,958	1,177,710	5,750,668	12,392
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	61,110	–	61,110	–
	<u>6,504,205</u>	<u>1,408,843</u>	<u>7,913,048</u>	<u>12,392</u>

	31 December 2010			Individual impairment allowance HK\$'000
	On-balance sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	Total HK\$'000	
Types of counterparties				
Mainland entities	911,503	168,917	1,080,420	–
Companies and individuals outside Mainland where the credit is granted for use in Mainland	3,424,365	1,028,352	4,452,717	10,360
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	16,404	–	16,404	–
	<u>4,352,272</u>	<u>1,197,269</u>	<u>5,549,541</u>	<u>10,360</u>

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 7. LIQUIDITY RATIO

	<b>2011</b>	<b>2010</b>
	%	%
Average liquidity ratio for the year	<u><b>42.41</b></u>	<u><b>45.20</b></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 ADEQUACY RATIO

	<b>2011</b>	<b>2010</b>
	%	%
Capital adequacy ratio	<b>15.44</b>	17.91
Core capital ratio	<b>10.58</b>	11.22

The capital adequacy ratios as at 31 December 2011 and 31 December 2010 are computed on the consolidated basis of the Bank and certain of its subsidiaries as specified by the Hong Kong Monetary Authority for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1 January 2007.

Capital adequacy ratio was compiled in accordance with the Banking (Capital) Rules under section 98A of the Hong Kong Banking Ordinance for the implementation of the "Basel II" capital accord, which became effective on 1 January 2007. 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 and Top Benefit Enterprise Limited.



## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 8. CAPITAL ADEQUACY RATIO - continued

#### Capital base

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December and reported to the Hong Kong Monetary Authority is analysed as follows:

	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Core capital		
Paid-up ordinary share capital	<b>217,500</b>	217,500
Share premium	<b>1,542,817</b>	1,542,817
Published reserves	<b>3,376,550</b>	3,367,739
Profit and loss account	<b>260,692</b>	(40,632)
Less: Net deferred tax assets	<b>(6,721)</b>	–
Total core capital	<b>5,390,838</b>	5,087,424
Other deductions from core capital	<b>(120,596)</b>	(122,650)
Core capital after deductions	<b>5,270,242</b>	4,964,774
Supplementary capital		
Reserves attributable to fair value gains on revaluation of holdings of land and buildings	<b>35,117</b>	5,293
Collective impairment allowances	<b>172,208</b>	125,075
Regulatory reserve for general banking risks	<b>408,000</b>	331,000
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	<b>14,711</b>	22,734
Unrealised fair value gains arising from holding of equities and debt securities designated at fair value through profit or loss	<b>59,573</b>	79,774
Term subordinated debt	<b>1,852,153</b>	2,515,692
Total supplementary capital	<b>2,541,762</b>	3,079,568
Other deductions from supplementary capital	<b>(120,596)</b>	(122,651)
Supplementary capital after deductions	<b>2,421,166</b>	2,956,917
Total capital base after deductions	<b>7,691,408</b>	7,921,691

Deductions from total capital base mainly include investments in subsidiaries of which their risk-weighted assets have not been consolidated into the total risk-weighted assets of the Group, which mainly conduct non-banking related business. Those subsidiaries are Chong Hing Commodities and Futures Limited, Chong Hing Insurance Company Limited, Chong Hing (Management) Limited, Chong Hing (Nominees) Limited and Chong Hing Securities Limited.

## UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

### 9. BASIS OF CONSOLIDATION

The consolidated financial statements covers the consolidated financial information of the Bank and all its subsidiaries and included the attributable share of interest in the Group's jointly controlled entities.

In preparing the capital adequacy ratio and liquidity ratio of the Group, they are prepared according to the basis of consolidation 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 jointly controlled entities 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.

### 10. LIST OF SUBSIDIARIES FOR FINANCIAL REPORTING CONSOLIDATION

Card Alliance Company Limited  
Chong Hing Commodities and Futures Limited  
Chong Hing Finance Limited  
Chong Hing Information Technology Limited  
Chong Hing Insurance Company Limited  
Chong Hing (Management) Limited  
Chong Hing (Nominees) Limited  
Chong Hing Securities Limited  
Gallbraith Limited  
Liu Chong Hing Banking Corporation, Cayman\*  
Right Way Investments Limited  
Top Benefit Enterprise Limited

\* *Dissolved on 6 July 2011.*

## **STATEMENT OF COMPLIANCE**

In preparing the accounts for 2011, 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 Wednesday, 9 May 2012 the payment of the final cash dividend for 2011 of HK\$0.35 per share. This final cash dividend, if approved, will be paid on Thursday, 24 May 2012 to shareholders whose names are listed on the register of members of the Bank on Friday, 18 May 2012.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Bank will be closed from Thursday, 3 May 2012 to Friday, 4 May 2012 (both days inclusive), for the purpose of ascertaining the Shareholders who are entitled to attend and vote at the 2012 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 2012 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, 2 May 2012.

In addition, the register of members of the Bank will be closed from Thursday, 17 May 2012 to Friday, 18 May 2012 (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 Wednesday, 16 May 2012.

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

The Bank redeemed the entire outstanding amount of US\$125,000,000 Floating Rate Subordinated Notes due 2016 in full on 16 December 2011, and delisted upon the Hong Kong Stock Exchange's close of business on 9 January 2012. Save for the above, 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 financial year ended 31 December 2011, the Bank has complied with the Supervisory Policy Manual “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority and the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Corporate Governance Code”) except, 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 the Bank’s practice to be an appropriate alternative to that recommended under A.4.1 and A.4.2 of the Corporate Governance Code in respect of the appointment of non-executive directors for a specific term and the retirement by rotation of 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 2011, 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 2011, 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 in due course.

## **CHAIRMAN'S STATEMENT**

### **Economic Review**

2011 was a year of worldwide economic turmoil. The sovereign debt crisis in Greece rippled through various European countries, pushing many countries to the brink of bankruptcy and the Eurozone to the edge of disintegration. For the first time since 1917, the United States had lost her highest long-term sovereign credit rating, followed by a series of declines in ratings of European countries such as Spain and Italy. In January 2012, long-term sovereign credit ratings of nine Eurozone countries including France and Austria were downgraded. The credit ratings of various financial institutions were lowered too. The global economy was weak in recovery.

The economy of Hong Kong began to slow down in the second half of 2011. For 2011 as a whole, leveraging on the internationalisation of Renminbi and the promising prospects for Renminbi businesses in Hong Kong, not to mention the continuing buoyant local consumption demand and tourist spending, gross domestic product grew by 5% in real terms. The labour market showed improvement following a period of above-trend economic growth, lowering the unemployment rate to 3.3% in the fourth quarter of 2011. Property market sentiment was more cautious as a result of strengthened regulatory measures introduced by the Hong Kong Government such as special stamp duty on residential properties at the point of resale and more stringent mortgage loan terms. The number of annual real estate registrations plunged by over 30% from 2010 to around 108,800 cases. On the stock market front, the Hang Seng Index slumped from the height of above 24,000 to about 16,100 in October, the lowest in the past 30 months. The index closed at around 18,400 on the last trading day, recording a fall of nearly 20% in 2011.

Since 2010, curbing inflation has been the top priority of macro control for China. Mainland's inflation rate stood high from January through September before easing substantially in October 2011. In February 2012, The People's Bank of China had lowered the reserve requirement ratio for the second time in 3 years, cutting the reserve limit of the major banks in the mainland from 21% to 20.5%. This marked a shift towards stable growth in the Central Government's economic control policies.

Against the background of the sluggish global economy, the United States was experiencing moderate recovery. There was improvement in overall labour market conditions and continued growth in household spending, but the unemployment rate remained high and business investment appeared to be increasing at a slower pace. After its first rate-fixing meeting in 2012, the US Federal Reserve Board announced that it would keep the target range for the federal funds rate at 0% to 0.25% and that the policy of low rate is warranted to continue at least through late 2014.

## Results Announcement and Profit Analysis

The results for the financial year of 2011 of the Bank, on an audited, consolidated basis, are summarised below:

<b>Key Financial Data</b>	<b>2011</b> <b>HK\$'000</b> <b>(unless otherwise</b> <b>specified)</b>	<b>2010</b> <b>HK\$'000</b> <b>(unless otherwise</b> <b>specified)</b>	<b>Variance</b> <b>%</b>
1. Net operating profit before impairment	<b>541,247</b>	539,546	+0.32
2. Profit attributable to shareholders	<b>559,455</b>	476,162	+17.49
3. Return on equity	<b>8.32%</b>	7.55%	+10.20
4. Earnings per share	<b>HK\$1.29</b>	HK\$1.09	+17.49
5. Net interest income	<b>815,321</b>	816,127	-0.10
6. Net interest margin	<b>1.17%</b>	1.21%	-3.31
7. Net fee and commission income	<b>217,723</b>	240,174	-9.35
8. Net (losses) gains on financial instruments at fair value through profit or loss	<b>(102,418)</b>	23,752	-531.20
9. Operating expenses	<b>773,555</b>	711,935	+8.66
10. Cost-to-income ratio	<b>58.83%</b>	56.89%	+3.41
11. Impairment allowances on loans and advances - Net (amounts reversed) allowances	<b>(107,188)</b>	17,785	-702.69
12. Total loans and advances to customers	<b>41,338,484</b>	37,927,679	+8.99
13. Impaired loan ratio	<b>0.19%</b>	0.09%	+111.11
14. Provision coverage of impaired loans and advances	<b>271.87%</b>	411.83%	-33.98
15. Rescheduled loan ratio	<b>0.53%</b>	0.70%	-24.29
16. Total customer deposits	<b>64,815,713</b>	63,500,219	+2.07
17. Loan-to-deposit ratio	<b>57.17%</b>	54.78%	+4.36
18. Total assets	<b>77,445,772</b>	74,289,013	+4.25
19. Net asset value per share (before final dividend)	<b>HK\$15.78</b>	HK\$15.12	+4.33
20. Capital adequacy ratio	<b>15.44%</b>	17.91%	-13.79
21. Core capital ratio	<b>10.58%</b>	11.22%	-5.70
22. Average liquidity ratio	<b>42.41%</b>	45.20%	-6.17

## Analysis of Key Financial Data

For the financial year of 2011, on an audited, consolidated basis, net operating profit before impairment amounted to HK\$541 million, similar to that for the year before. Net interest income at HK\$815 million was similar to that for last year as total assets increased by 4% year on year but net interest margin narrowed 4 basis points to 1.17%. Net fee and commission income dropped 9% to HK\$218 million because of fierce competition in securities dealing. The net losses on financial instruments at fair value through profit or loss were HK\$102 million as the credit spreads on Hong Kong and mainland China debt securities had widened resulting in revaluation losses. Such price movements were in line with the financial market sentiments and there was no deterioration in credit quality, because exposures were to large listed conglomerates in Hong Kong and state-controlled enterprises in mainland China and there was no impairment loss incurred on debt securities.

The recovery of amounts previously written-off in relation to the Lehman Brothers Minibonds Repurchase Scheme was HK\$235 million and was included under other operating income. A total amount of HK\$304 million had been incurred as expenses relating to the Lehman Brothers Minibonds Repurchase Scheme in 2009 and 2010, resulting in a net loss to the Bank of HK\$69 million after the recovery of the Lehman Brothers Minibonds collateral, the ex-gratia payment to customers and the obligation under the Expenses Funding Agreement in question. Moreover, a delinquent borrower agreed to repay a secured loan that was previously written-off by the Bank. An amount of HK\$170 million was recovered by the Bank from the borrower and reflected in the income statement as a reversal of impairment allowances on loans and advances. On the other fronts, operating expenses increased by HK\$62 million from those of last year as total staff costs increased by 7%.

Profit attributable to shareholders amounted to HK\$559 million, an improvement of 17.5% or HK\$83 million over that for the year before, translating into earnings of HK\$1.29 per share and return on equity of 8.3%.

Total loans and advances to customers increased by 9% to HK\$41,338 million. With careful management on the exposure to credit risk, asset quality of loans and advances continued to improve with impaired loan ratio at 0.19%, provision coverage of impaired loans and advances at 271.9%, and rescheduled loan ratio at 0.53%. The charge for individually assessed impairment allowances on loans and advances was HK\$30 million for the year. During the year HK\$77 million had been transferred from retained profits to regulatory reserve and the collectively assessed impairment allowances on loans and advances had been increased to bring the total of regulatory reserve and collectively assessed impairment allowances to be around 1.4% of total loans and advances. Total customer deposits increased by 2.1% to HK\$64,816 million. As loan growth exceeded deposit growth, loan-to-deposit ratio increased from 54.78% in December 2010 to 57.17% in December 2011. Total assets increased by HK\$3,157 million to HK\$77,446 million with net asset value per share (before final dividend) at HK\$15.78. Capital adequacy ratio was maintained at 15.44% after 9% growth in loans and advances to customers and the Bank redeemed and cancelled the entire outstanding amount of its subordinated notes qualifying as tier 2 capital issued in December 2006. Core capital ratio was registered at 10.58%.

All in all, the Bank's core business lines and overall financial health are sound, its non-performing loan ratio low and asset quality good, and its capital adequacy and liquidity ratios are 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 3". As such, your board has recommended paying the final cash dividend of HK\$0.35 per share for the financial year of 2011 (2010 final cash dividend: HK\$0.35 per share) to shareholders whose names appear in the Register of Members at the close of business on Wednesday, 16 May 2012. Total dividends for the financial year of 2011, including the interim cash dividend of HK\$0.15 per share paid on 29 September 2011 (2010 interim cash dividend: HK\$0.10 per share), amounted to HK\$0.50 per share (2010 total dividend: HK\$0.45 per share).

## **Notes Redemption**

The Bank redeemed the entire outstanding amount of its US\$125 million Floating Rate Subordinated Notes due 2016 on 16 December 2011. This early redemption reflected the solid financial position of the Bank. With its capital adequacy ratio well above the statutory requirement, the Bank will continue to develop a diversified portfolio of products and services to meet the needs of its customers.

## **Business Review**

### **Corporate and Retail Banking**

#### *Loan and Deposit Business*

Despite adverse conditions such as sluggish external economy and tightened regulation over the local property market, the Bank managed to record mild growth in the outstanding value of mortgage loans in 2011 compared with that of the same period last year. On the deposit business front, the Bank actively expanded its client base and deposit portfolio. The Bank's sales of various products and fee income have increased and its loan portfolio has continued to grow steadily.

As a result of global economic recovery and rate adjustment, the total amount of the Bank's overall corporate loans and transaction amount of trade finance recorded satisfactory growth compared with those of the same period last year. Interest income and non-interest income continued to rise. The Bank highly appreciated and strongly supported the earlier introduction by the Hong Kong Government of the Loan Guarantee Scheme for small and medium-sized enterprises ("SMEs" collectively and "SME" singly). In the light of the gradual expiry of credit lines under the Hong Kong Government's Loan Guarantee Scheme, the Bank continued to highly support and actively promote the "SME Financing Guarantee Scheme" launched by The Hong Kong Mortgage Corporation Limited for SMEs, which has further driven the growth of the loan business of the Bank.

Furthermore, the Bank is committed to providing customer-oriented and flexible banking services to SMEs. The Bank's SME services are 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 third time.



The Bank has been a strong supporter of local businesses and seeks to foster closer relationship with its customers, including companies of all sizes, whether listed or not. Dedicated assistance was also offered to facilitate customers' development of businesses in China in the form of trade finance and cross-border Renminbi services. In addition, the Bank also helped mainland companies of sound quality to develop their businesses in Hong Kong.

With the aim of expanding its clientele, the Bank will continue to optimise its corporate loan portfolio and strengthen its cooperation with quality corporate customers in exploring business opportunities in a prudent manner.

### ***Card Business***

For 2011, the Bank's credit card business recorded increases in both the number of credit cards issued and accounts receivable, and double-digit growth in merchant-billed turnover compared with those of the same period last year. In particular, China UnionPay ("UnionPay") card businesses achieved a remarkable growth of 50%.

This year, the Bank partnered with UnionPay and NuPay System International Limited in the launch of "My Wine" UnionPay Co-branded Gift Card, the first red wine-themed UnionPay gift card in the world.

In addition, the Bank became the first local bank to launch "UnionPay EmergencyCash Service" in collaboration with UnionPay in September 2011.

To maintain its strong business growth, the Bank will continue to expand its credit card and merchant acquiring services and further drive the development of UnionPay-branded services.

### ***e-Banking Business***

In 2011, the Bank capitalised on the market trend and launched its iPhone Mobile Application, providing customers and the public with quick and convenient access to banking information. Features of the Mobile Application include interest rate and exchange rate enquiry, securities market updates, card offer updates, loan services and a quick locator of nearby or regional branches and automated teller machines. In future, the Bank will continue to roll out more Mobile Application functions and provide a comprehensive range of modern banking services to satisfy customers' needs.

### ***China Business***

The Bank continued to develop its mainland business. Pursuant to the National 12th Five-Year Plan, the Bank provided relevant banking services to facilitate to Hong Kong companies in using Renminbi for direct investments in China, strengthening the development of Hong Kong as an offshore Renminbi business centre.

Furthermore, the Bank is planning to set up branches or sub-branches in Guangdong Province to facilitate the development of its mainland business.

## **Treasury Activities**

Treasury activities mainly comprised money market operations and foreign exchange services. All these activities were carried out under prudent risk management.

The Bank takes a prudent approach to liquidity management and maintains a relatively high level of liquidity position. In compliance with the liquidity requirements of local and international regulators, the Bank has enhanced its liquidity management by introducing liability products, such as certificate of deposit programme and collateral swap, to tap longer-term funding from the professional markets.

In managing the net interest margin, the Bank maintained its investments in debt securities to mitigate the stress on interest income resulting from the low and flattening money market yield curves and the fierce competition for deposits.

In the area of developing Renminbi businesses, the Bank took a prudent and stable approach. The Bank offered treasury products and services such as interbank funding, non-deliverable forward contracts, foreign currency swaps and bond investments in Renminbi.

## **Securities Dealing**

2011 witnessed a series of sovereign credit rating downgrades due to sovereign debt crisis of the US and various European countries. Not only was the global investment market dampened, sentiment of the local stock market was also impacted. Response to initial public offerings was weak and daily turnover declined sharply. Fierce competition in the sector further aggravated the operating conditions. Nevertheless, Chong Hing Securities Limited, a wholly-owned subsidiary of the Bank, continued to capitalise on its market niche by providing high-quality, customer-oriented retail securities services through, among other channels, its mobile securities trading platform with enhanced efficiency. Looking into 2012, the Hong Kong stock market is expected to rebound upon further deregulation of China's macro economic control policies, subsidence of the European debt crisis and gradual recovery of global economy.

## **Other Related Businesses**

### ***Insurance Business***

Notwithstanding the impact of various natural disasters and diminished investment return due to external conditions, Chong Hing Insurance Company Limited ("Chong Hing Insurance"), a wholly-owned subsidiary of the Bank, achieved respectable results in 2011. Double-digit growth was recorded in premium income and profit compared with those of the same period last year. Maintaining its prudent approach of development, Chong Hing Insurance will seek further growth by expanding its SME and individual insurance businesses and offering a more comprehensive range of quality insurance services.

## **Corporate Responsibility**

In order to practise the preaching of serving as a “community bank” and providing a comprehensive range of high quality banking services to the local community, the Bank continued to expand its service network. In June 2011, Lek Yuen Estate Branch was opened in Shatin, which brought the number of local branches to 52 besides the head office in Central.

As a caring institution serving the community, the Bank takes part in various social improvement activities. In 2011, the Bank made a further donation to Gracefield East Kowloon Christian Kindergarten, which provides quality education for children from low-income, single-parented or other needy families. In addition, the Bank also actively participated in and supported activities of other charitable organisations such as the Hong Kong Community Chest Fund, Po Leung Kuk and Tung Wah Group of Hospitals. The Bank was awarded the “5 Consecutive Years Caring Company” logo in early 2012.

In December 2011, the Hong Kong Chiu Chow Chamber of Commerce organised a five-day “Chaozhou and Shantou Cultural Carnival” in order to promote the culture of Chaozhou and Shantou to the general public, and instil harmonious atmosphere in the community. Admission to the event was free of charge for the public. Not only did the Bank take part as a Diamond Gold Sponsor, it also helped to arrange 200 elderly citizens to join the event and offered them free food and souvenirs.

## **Purchase of New Office Premises**

The Bank, through a wholly-owned subsidiary, purchased the whole 15th Floor of Towers 1, 2 and 3 of Enterprise Square in Kowloon Bay for its business operations in November 2011. The Bank has taken this relocation opportunity to rethink the optimal locations for all of its operating units. It is envisaged that at the end of this relocation exercise, the Bank’s operating units will be more optimally placed to achieve better work effectiveness and efficiency.

## **Corporate Governance**

We are 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. We have, 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**

Shortage of funds in the global financial market painted a gloomy outlook for economies worldwide. The US Federal Reserve Board is assessing the impact of the European debt crisis on the global financial market. For the time being, “Operation Twist” will be continued by extending the average maturity of federal bonds to suppress long-term interest rate. Nevertheless, the market anticipates more tangible easing measures to be rolled out to stimulate the economy.

On the Hong Kong front, a separate chapter was dedicated to the development of Hong Kong and Macau in the National 12th Five-Year Plan in 2011, which affirms Hong Kong’s role as a Renminbi offshore centre. In August 2011, Ministry of Finance of Central Government issued the third batch of Renminbi sovereign bonds amounting to 20 billion Renminbi, surpassing the total issued amount in 2009 and 2010 combined. By the end of 2011, exchange arrangements for Foreign Direct Investments and Renminbi Qualified Foreign Institutional Investor (“RQFII”) were promulgated, consolidating the link between onshore and offshore Renminbi markets for the orderly circulation and exchange of funds. This marked an important milestone in the development of Hong Kong as an offshore Renminbi business centre.

Furthermore, the Hong Kong Government and the Central Government entered into Supplement VIII to the “Mainland and Hong Kong Closer Economic Partnership Arrangement” in December 2011. Accordingly, for the banking sector, mainland-incorporated banking institutions established by Hong Kong banks are allowed to engage in the business of mutual funds. For the securities sector, investments in mainland stock market by means of the RQFII scheme are permitted. For the insurance sector, Hong Kong insurance brokerage companies are allowed to set up wholly-owned insurance agency companies in Guangdong Province on a pilot basis.

Looking forward, the economy of Hong Kong is expected to be continuously shrouded by uncertainties in the internal and external environments. The Central Government has, however, launched a series of strengthening measures to boost local economic development and consolidate the basis of cross-border collaboration. The Bank will continue to tap into such opportunities and strive for the sustained development of its business.

## **Sincere Acknowledgements**

Last but not least, on behalf of your board, I would like to express my heartfelt gratitude to our many customers and shareholders for their trust and support. With our dedication to serving as a community bank as well as our experienced management team and customer-focused staff, the Bank is well-positioned to keep on serving the public with excellence while maximising return for its shareholders.

## REVIEW OF FINANCIAL REPORT

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

By Order of the Board

**Liu Lit Mo**

*Chairman*

7 March 2012

*As of the date of this announcement:*

- *the seven executive directors of the Bank are Dr Liu Lit Mo (Chairman), Mr Liu Lit Chi (Managing Director & Chief Executive Officer), Mr Don Tit Shing Liu (Deputy Chief Executive Officer), Mr Lau Wai Man (Deputy Chief Executive Officer), Mr Wilfred Chun Ning Liu, Mr Tsang Chiu Wing and Mr Wong Har Kar;*
- *the seven non-executive directors are Mr Timothy George Freshwater, Mr Wang Xiaoming, Mr Andrew Liu, Mr Hidemitsu Otsuka, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Meng Qinghui; and*
- *the four independent non-executive directors are Dr Robin Yau Hing Chan, Mr Wanchai Chiranakhorn, Mr Cheng Yuk Wo and Mr Andrew Chiu Cheung Ma.*