Bank of Shanghai (Hong Kong) Limited

(Formerly known as China Construction Bank (Asia) Finance Limited)

Directors' Report and Financial Statements
for the year ended 31 December 2013

Contents

Report of the directors

The directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2013.

Principal place of business

Bank of Shanghai (Hong Kong) Limited ("the Company") is a restricted licence bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 2001-05 ICBC Tower, Citibank Plaza, 3 Garden Road, Hong Kong with effect from 30 May 2013. Prior to 30 May 2013, the Company's registered office and principal place of business was at 22/F., CCB Centre, 18 Wang Chiu Road, Kowloon Bay, Kowloon.

Principal activities

On 30 May 2013, the controller of the Company was changed from China Construction Bank (Asia) Corporation Limited ("CCB Asia") to Bank of Shanghai Co., Limited with the approval of Hong Kong Monetary Authority ("the HKMA"). The Company has then changed its name from China Construction Bank (Asia) Finance Limited to Bank of Shanghai (Hong Kong) Limited. Its principal activities are to provide financial services to corporations and individuals. Prior to the change of controller, the Company remained inactive and its principal activities were to generate interest income from balances and placements with banks.

Financial statements

The operating results of the Company for the year ended 31 December 2013 and the state of the Company's affairs as at that date are set out in the financial statements on pages 6 to 65.

Transfer to reserves

The loss attributable to shareholders of HK$24,568,000 (2012: profit of HK$2,437,000) has been transferred to reserves. Other movements in reserves are set out in the statement of changes in equity on page 9.

An interim dividend of HK$13.49 per share (2012: HK$48 per share) was declared on 27 May 2013. The directors do not recommend the payment of a final dividend in respect of the financial year ended 31 December 2013 (2012: Nil).

Share capital

Details of share capital of the Company are set out in note 23 to the financial statements. Shares were repurchased as part of the reorganisation exercise prior to the change of controller of the Company.

Charitable donations

Charitable donations made by the Company during the financial year amounted to HK$25,000 (2012: $Nil).

Directors

The directors of the Company during the year were:

Jin, Yu	(appointed on 30 May 2013)
Zhang, Weiguo	(appointed on 30 May 2013)
Huang, Tao	(appointed on 30 May 2013)
Fok, Lawrence Kwong Man	(appointed on 30 May 2013)
Ma, Charles Chi Man	(appointed on 30 May 2013)
Kwok, Miranda Pui Fong	(resigned on 30 May 2013)
Wong, Justin Hon Yu	(resigned on 30 May 2013)

Directors' interests in shares

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

Directors' interests in contracts

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

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the year.

Statement of compliance

The financial statements for the year ended 31 December 2013 comply with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Subsequent event

On 3 January 2014, the Company issued 140,438,500 shares of RMB10.00 each to its holding company at par to strengthen its capital position.

On 5 March 2014, the Company established a wholly-owned subsidiary in Hong Kong named BOSC International Company Limited with HK$10,000,000 in preparation of the expansion of its scope of business.

Auditors

KPMG were appointed as auditors of the Company to fill the casual vacancy following the resignation of PricewaterhouseCoopers.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

Charles Ma

Director

Hong Kong,

28 APR 2014

Independent auditor's report to the shareholders of Bank of Shanghai (Hong Kong) Limited (Formerly known as China Construction Bank (Asia) Finance Limited)

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Bank of Shanghai (Hong Kong) Limited ("the Company") set out on pages 6 to 65 which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

KPMG

Independent auditor's report to the shareholders of Bank of Shanghai (Hong Kong) Limited (Formerly known as China Construction Bank (Asia) Finance Limited) (continued)

(Incorporated in Hong Kong with limited liability)

Auditor's responsibility (continued)

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 APR 2014

Statement of comprehensive income for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	*2013* $'000	*2012* $'000
Interest income	5	9,868	3,016
Interest expense	5	(5,385)	-
Net interest income		4,483	3,016
Fee and commission income	6	11,552	-
Fee and commission expense	6	(106)	-
Net fee and commission income		11,446	-
Net trading gain	7	78	-
Other operating income		1	89
Total operating income		16,008	3,105
Operating expenses	8	(44,354)	(385)
Operating (loss)/profit before impairment losses		(28,346)	2,720
Loan impairment charges	9	(558)	-
(Loss)/profit before taxation		(28,904)	2,720
Taxation	11	4,336	(283)
(Loss)/profit for the year		(24,568)	2,437
Other comprehensive income for the year net of tax			
Item that may be reclassified subsequently to profit or loss			
Net movement in available-for-sale fair value reserve	12	950	-
Total comprehensive income for the year		(23,618)	2,437

The notes on pages 11 to 65 form part of these financial statements.

Statement of financial position as at 31 December 2013

(Expressed in Hong Kong dollars)

	Note	*2013* $'000	*2012* $'000
Assets			
Cash and balances with banks	13	27,370	193,373
Placements with banks	14	1,018,818	320,728
Loans and advances to customers	15	153,901	-
Available-for-sale financial assets	16	47,614	-
Fixed assets	17	13,820	-
Intangible assets	18	6,810	-
Current tax recoverable	21(a)	424	3,479
Deferred tax assets	21(b)	4,782	-
Other assets	19	13,662	2,049
TOTAL ASSETS		1,287,201	519,629
Liabilities			
Deposits from customers	20	967,561	-
Deposits from banks		130,987	-
Derivative financial liabilities	25(b)	302	-
Current tax payable	21(a)	446	-
Other liabilities	22	11,825	-
Total liabilities		1,111,121	-

Statement of financial position as at 31 December 2013 (continued)

(Expressed in Hong Kong dollars)

	Note	*2013* $'000	*2012* $'000
Equity			
Share capital	23	200,000	250,000
(Accumulated losses)/retained profits	23	(25,856)	269,629
Other reserves	23	1,936	-
Total equity		176,080	519,629
TOTAL EQUITY AND LIABILITIES		1,287,201	519,629

Approved and authorised for issue by the board of directors on 28 APR 2014

) Directors

The notes on pages 11 to 65 form part of these financial statements.

Statement of changes in equity for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	*Share capital* $'000	*(Accumulated losses)/ retained profits* $'000	*Available-for-sale fair value reserve* $'000	*Regulatory reserve* $'000	*Total* $'000
Balance at 1 January 2012		250,000	1,467,192	-	-	1,717,192
Changes in equity for 2012:					-	
Profit for the year		-	2,437	-	-	2,437
Other comprehensive income	12	-	-	-	-	-
Total comprehensive income		-	2,437	-	-	2,437
Dividend paid	23(b)	-	(1,200,000)	-	-	(1,200,000)
Balance at 31 December 2012 and 1 January 2013		250,000	269,629	-	-	519,629
Changes in equity for 2013:						
Loss for the year		-	(24,568)	-	-	(24,568)
Other comprehensive income	12	-	-	950	-	950
Total comprehensive income		-	(24,568)	950	-	(23,618)
Share repurchase	23(a)	(50,000)	-	-	-	(50,000)
Dividend paid	23(b)	-	(269,931)	-	-	(269,931)
Transfer to regulatory reserve		-	(986)	-	986	-
Balance at 31 December 2013		200,000	(25,856)	950	986	176,080

The notes on pages 11 to 65 form part of these financial statements.

Statement of cash flows for the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	2013 $'000	2012 $'000
Net cash inflow from operating activities	28(a)	663,753	1,200,991
Investing activities			
Purchases of fixed assets and intangible assets		(24,098)	-
Purchase of available-for-sale financial assets		(46,754)	-
Interest received from available-for-sale financial assets		574	-
Net cash outflow from investing activities		(70,278)	-
Financing activities			
Dividend paid		(269,931)	(1,200,000)
Payment for share repurchase		(50,000)	-
Net cash outflow from financing activities		(319,931)	(1,200,000)
Increase in cash and cash equivalents		273,544	991
Cash and cash equivalents at 1 January		514,101	513,110
Cash and cash equivalents at 31 December	28(b)	787,645	514,101

The notes on pages 11 to 65 form part of these financial statements.

Notes to the financial statements

(Expressed in Hong Kong dollars)

1 General information and significant accounting policies

(a) *General information*

On 30 May 2013, the controller of the Company was changed from China Construction Bank (Asia) Corporation Limited to Bank of Shanghai Co., Limited with the approval of the HKMA. The Company has then changed its name from China Construction Bank (Asia) Finance Limited to Bank of Shanghai (Hong Kong) Limited. Its principal activities are to provide financial services to corporations and individuals. Prior to the change of controller, the Company remained inactive and its principal activities were to generate interest income from balances and placements with banks.

The Company is a restricted licence bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 2001-05 ICBC Tower, Citibank Plaza, 3 Garden Road, Hong Kong.

(b) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") with collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Company for the current and prior accounting periods reflected in these financial statements.

A summary of the significant accounting policies adopted by the Company is set out below.

(c) *Basis of preparation*

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as trading, designated at fair value through profit or loss, or available-for-sale are stated at their fair value as explained in the accounting policies set out below.

1 General information and significant accounting policies (continued)

(c) *Basis of preparation (continued)*

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect in the financial statements and major sources of estimation uncertainty are discussed in note 3.

(d) *Financial instruments*

(i) Initial recognition

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

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

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

1 General information and significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Classification

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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

Loans and receivables

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

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 1(i)).

Available-for-sale financial assets

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

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

Investments in equity securities that do not have a quoted market price in an active market and which fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see note 1(i)).

1 General information and significant accounting policies (continued)

(d) Financial instruments (continued)

(ii) Classification (continued)

Available-for-sale financial assets (continued)

When the available-for-sale financial assets are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to profit or loss.

Other financial liabilities

Financial liabilities, other than trading liabilities, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles

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

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for it is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

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

(iv) Derecognition

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

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

1 General information and significant accounting policies (continued)

(d) Financial instruments (continued)

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position where there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(e) Fixed assets

Fixed assets are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (see note 1(i)).

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

Depreciation is calculated to write off the cost or valuation of items of fixed assets, less their estimated residual value, if any, using the straight-line method over the estimated useful lives as follows:

– Leasehold improvements	Shorter of the lease term or their estimated useful lives to the Company
– Furniture, computer and other equipment	2 - 5 years
– Motor vehicles	4 years

Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(f) Intangible assets

Intangible assets included acquired software and club membership. Intangible assets are stated in the statement of financial position at cost less accumulated amortisation and impairment losses (see note (i)).

Amortisation of intangible assets with finite useful lives is charged to the statement of comprehensive income on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follow:

– acquired software	1 - 5 years

Both the period and method of amortisation are reviewed annually.

1 General information and significant accounting policies (continued)

(f) Intangible assets (continued)

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to definite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

(g) Leases and hire purchase contracts

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

(i) Classification

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

(ii) Finance leases

Where the Company is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as loans and advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i).

Where the Company acquires the use of assets under finance leases, the amounts representing the fair value of the leased assets, or, if lower, the present values of the minimum lease payments of such assets, are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant leases or, where it is likely the Company will obtain ownership of the asset, the life of the asset, as set out in note 1(e). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

1 General information and significant accounting policies (continued)

(g) Leases and hire purchase contracts (continued)

(iii) Operating leases

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

(h) Repossessed assets

In the recovery of impaired loans and advances, the Company may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Company is no longer seeking repayment from the borrowers, repossessed assets are reported in "Other assets". The Company does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of the amount of the related loans and advances and fair value less costs to sell at the date of repossession, and the related loans and advances together with the related impairment allowances are derecognised from the statement of financial position. They are not depreciated or amortised.

(i) Impairment of assets

The carrying amount of the Company's assets is reviewed at each reporting date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Company about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

- delinquency in contractual payments of principal or interest;
- cash flow difficulties experienced by the borrower;
- breach of loans covenants or conditions;
- initiation of bankruptcy proceedings;

1 General information and significant accounting policies (continued)

(i) Impairment of assets (continued)

- deterioration in the value of collateral; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to profit or loss.

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

(i) Loans and receivables

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

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

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

1 General information and significant accounting policies (continued)

(i) Impairment of assets (continued)

(i) Loans and receivables (continued)

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Company and historical loss experience for assets with credit risk characteristics similar to those of the Company. Historical loss experience is adjusted on the basis of current observable data on economic and credit environment to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to profit or loss. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

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

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

(ii) Available-for-sale financial assets

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

1 General information and significant accounting policies (continued)

(i) Impairment of assets (continued)

(ii) Available-for-sale financial assets (continued)

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

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

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

(iii) Other non-financial assets

Internal and external sources of information are reviewed at each reporting date to identify indications that the fixed and intangible assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

  The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 General information and significant accounting policies (continued)

(i) Impairment of assets (continued)

(iii) Other non-financial assets (continued)

- Recognition of impairment losses

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

- Reversals of impairment losses

  An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(j) Cash equivalents

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

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and balances with banks and placements with banks.

(k) Employee benefits

It represents short-term employee benefits and contributions to defined contribution retirement plans.

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

1 General information and significant accounting policies (continued)

(l) Income tax

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

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred income tax is determined using tax rates and law that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from asset impairment provisions, depreciation of fixed assets, revaluation of certain assets and tax losses carried forward. However, the deferred tax is not recognised if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred tax liabilities are provided in full on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

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

- in the case of current tax assets and liabilities, the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or

1 General information and significant accounting policies (continued)

(l) Income tax (continued)

- different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

Where the Company issues a financial guarantee to customers, the fair value of the guarantee (being the guarantee fees received) is initially recognised as deferred income within other liabilities.

The deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(m)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Company under the guarantee, and (ii) the amount of that claim on the Company is expected to exceed the amount currently carried in other liabilities in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

1 General information and significant accounting policies (continued)

(n) Revenue recognition

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

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the profit or loss on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

(ii) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Company which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

1 General information and significant accounting policies (continued)

(n) Revenue recognition (continued)

(iii) Finance income from finance lease and hire purchase contract

Finance income implicit in finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to profit or loss over the expected life of the lease as an adjustment to interest income.

(iv) Dividend income

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

(o) Translation of foreign currencies

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

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

Exchange differences relating to derivative financial instruments and monetary items are presented in the statement of comprehensive income as net trading gain or loss. Differences arising on translation of available-for-sale equity instruments are recognised in reserves.

1 General information and significant accounting policies (continued)

(p) Related parties

(a) A person, or a close member of that person's family, is related to the Company if that person:

   (i) has control or joint control over the Company;

   (ii) has significant influence over the Company; or

   (iii) is a member of the key management personnel of the Company or the Company's parent.

(b) An entity is related to the Company if any of the following conditions applies:

   (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   (iii) Both entities are joint ventures of the same third party.

   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.

   (vi) The entity is controlled or jointly controlled by a person identified in (a).

   (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

2 Changes in accounting policies and disclosures

The HKICPA has issued several new/revised HKFRSs that are first effective for the current accounting period of the Company. Of these, the following developments are relevant to the Company's financial statements:

- Amendments to HKAS 1, *Presentation of financial statements - Presentation of items of other comprehensive income*
- HKFRS 13, *Fair value measurement*

The impacts of the adoption of these new or amended HKFRSs are as follows:

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the statement of comprehensive income in these financial statements has been modified accordingly.

HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Company, the Company has provided those disclosures in note 4(e). The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Company's assets and liabilities.

The Company has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 30).

3 Accounting estimates and assumptions

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment allowance

Loans and advances to customers

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Company makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in note 1(i). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Company. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

4 Financial risk management

The Company's activities expose it to a variety of financial and operational risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. The most important types of financial risks are credit risk, market risk and liquidity risk. Market risk includes currency risk, interest rate and price risk.

Taking risk is core to the financial business, and the financial and operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

4 Financial risk management (continued)

The Company's risk management policies are designed to identify and analyse these risks so as to set appropriate risk limits and controls, and to monitor the risks and adhere to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and industry best practice.

Risk management functions are carried out by the specialised committees and the functional departments under the oversight of the Board of Directors. The Board provides guiding principles and directives for overall risk management including necessary policies covering the important risks as described below.

(a) Credit risk

Credit risk is the potential losses caused by obligor's inability to fulfil their contractual debt obligations. It arises from lending, treasury, derivatives and other activities undertaken by the Company. Credit exposures arise principally in loans and advances and debt securities in the Company's asset portfolio. There is also credit risk in off-balance sheet financial arrangements such as loan commitments.

The Company has established core procedures to foster its credit discipline in accordance with its credit policies.

The Company's approach to credit risk management focuses on monitoring and managing credit portfolios. Regular portfolio analyses are conducted to track the asset quality and support credit underwriting strategies on an ongoing basis. The Company's exposures to individuals, counterparties and products are subject to various risk control limits which are reviewed and approved from time to time. The senior management of the Company evaluates new product proposals as well as credit criteria for new account approval and credit limit management. As a rule, credit quality takes precedence over opportunistic business development.

Facility requests are processed in the prescribed format and those conforming to defined credit criteria are approved within delegated credit approval authorities in compliance with established policies, standards and procedures. The Company's credit risk is being mitigated by taking of security under its secured lending transactions. Credit exceptions to defined criteria must be approved by an officer with sufficient exception approval authority. Exceptions are documented, tracked and submitted for review by senior management on a regular basis.

All credit exposures are subject to stringent collection, classification and charge-off policies. In addition, the Company performs loan loss analyses, taking into consideration the economic factors and loss identification periods, to determine the appropriate level of impairment allowances.

4 Financial risk management (continued)

(a) Credit risk (continued)

(i) Maximum exposure

The table below shows the maximum exposure to credit risk at the reporting date without taking into consideration any collateral held or other credit enhancements. For on-balance sheet assets, the exposures set out below are based on the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance. For loan commitments and other credit related commitments that are irrevocable over the life of the respective facilities or revocable in the extent of significant adverse change, the maximum exposure to credit risk is disclosed as the full amount of the committed facilities sought on these balances.

	2013 $'000	*2012* $'000
Cash and balances with banks	27,370	193,373
Placements with banks	1,018,818	320,728
Loans and advances to customers	153,901	-
Available-for-sale financial assets	47,614	-
Other assets	13,662	2,049
Financial guarantees and other credit related contingent liabilities	1,007	-
Loan commitments and other credit related commitments	54,649	-
	1,317,021	516,150

Credit risk mitigation, collateral and other credit enhancement

The Company uses a variety of techniques to reduce the credit risk arising from its lending activities. Enforceable legal documentation establishes the Company's direct, irrevocable and unconditional recourse to any collateral, security or other credit enhancement provided. The table below describes the nature of collateral held and their financial effect by class of financial asset:

Balances and placements with banks	:	These exposures are generally considered to be low risk due to the nature of the counterparties. Collateral is generally not sought on these balances.

4 Financial risk management (continued)

(a) Credit risk (continued)

(i) Maximum exposure (continued)

Credit risk mitigation, collateral and other credit enhancement (continued)

Derivative financial assets	:	Master netting agreements are typically used to enable the effects of derivative financial assets and liabilities with the same counterparty to be offset in case of default.
Available-for-sale financial assets	:	No collateral is sought directly from the issuer. The fair value of these assets has reflected the credit risk element.
Loans and advances to customers	:	These exposures are secured, partially secured or unsecured depending on the type of customers and the products offered to them. Collaterals accepted by the Company includes residential properties, commercial real estates, standby letter of credit issued by banks accepted by the Company, bank deposits, etc.
Contingent liabilities and commitments	:	The components and the nature of contingent liabilities and commitments are disclosed in note 26. For commitments that are unconditionally cancellable, the Company would assess whether the credit facilities should be withdrawn whenever the Company is aware of the deterioration of borrower's credit quality. Accordingly, these commitments do not expose the Company to significant credit risk. For commitments that are not unconditionally cancellable, including letter of credit issued and other credit facilities, they are secured, partially secured or unsecured depending on the type of customers and the products offered to them.

4 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit quality of loans and advances

As at 31 December 2013 and 2012, all placements with banks and loans and advances to customers were neither past due nor impaired. According to the loan classification system as defined by the HKMA, all these loans and advances are graded at "Pass".

(iii) Credit quality of available-for-sale financial investments

As at 31 December 2013, all available-for-sale financial assets were neither past due nor impaired. The following table presents an analysis of available-for-sale debt securities investments by rating agency designation at the reporting date, based on Standard and Poor's Rating Services or Moody's Investors Services, to the respective issues of the debt securities. In the absence of such issue ratings, the ratings designated for the issuers are reported. If there are different ratings for the same securities, the securities are reported against the lower rating.

	2013	*2012*
	$'000	$'000
BBB	6,388	-
BB	41,226	-
	47,614	-

(b) Market risk

Market risk is the risk of loss in assets, liabilities and commitments arising from the net effect of changes in market rates, such as foreign exchange rates and interest rates.

In 2013, the Company entered into foreign exchange, interest rate and money market transactions, solely for the purpose of hedging, funding or deployment of surplus liquidity. Financial instruments entered into in respect of the above objectives mainly include forward foreign exchange contracts and money market transactions. The Company regarded the market risk arising from its trading book as immaterial as the Company meets all of the de minimis exemption criteria set out in Section 22(1)(a) of the Banking (Capital) Rules. In 2012, the Company only entered into money market transactions.

4 Financial risk management (continued)

(b) Market risk (continued)

(i) Currency risk

In 2013, the Company took on exposure due to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board set limits on the level of certain foreign exchange exposures, which were managed by Treasury Department and monitored by Financial Control function. The Company employed forward foreign currency exchange contracts to maintain its overall foreign currency exposure within such currency limit. In 2012, the Company considered its currency risk is not significant. The table below summarises the Company's exposures to foreign currency exchange rate risk that are recorded and not recorded in the statement of financial position.

The following table indicates the currency concentration of the assets and liabilities at carrying amounts in Hong Kong dollars equivalent, categorised by original currency.

At 31 December 2013

	HKD $'000	*USD* $'000	*EUR* $'000	*RMB* $'000	*Others* $'000	*Total* $'000
Assets						
Cash and balances with banks	23,066	911	2,864	103	426	27,370
Placements with banks	10,000	-	64,230	882,578	62,010	1,018,818
Loans and advances to customers	114,750	5,287	33,864	-	-	153,901
Available-for-sale financial assets	-	41,226	-	6,388	-	47,614
Fixed assets	13,820	-	-	-	-	13,820
Intangible assets	6,810	-	-	-	-	6,810
Deferred tax assets	4,782	-	-	-	-	4,782
Current tax recoverable	424	-	-	-	-	424
Other assets	3,494	1,431	3,544	5,173	20	13,662
Spot assets	177,146	48,855	104,502	894,242	62,456	1,287,201
Liabilities						
Deposits from customers	120,922	3,206	63,524	717,861	62,048	967,561
Deposits from banks	10,000	16,673	33,988	70,326	-	130,987
Derivative financial liabilities	302	-	-	-	-	302
Current tax payable	-	-	-	446	-	446
Other liabilities	7,240	700	20	3,848	17	11,825
Spot liabilities	138,464	20,579	97,532	792,481	62,065	1,111,121
Net long position	38,682	28,276	6,970	101,761	391	176,080

4 Financial risk management (continued)

(b) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2012

	HKD $'000	*USD* $'000	*Others* $'000	*Total* $'000
Assets				
Cash and balances with banks	192,073	1,182	118	193,373
Placements with banks	320,728	-		320,728
Current tax recoverable	3,479	-	-	3,479
Other assets	2,049	-	-	2,049
Spot assets	518,329	1,182	118	519,629
Liabilities				
Spot liabilities	-	-	-	-
Net long position	518,329	1,182	118	519,629

(ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

In 2013, the Company took on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow interest rate risk, interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board set limits on the level of mismatch of interest rate repricing that may be undertaken, which were managed by Treasury Department and monitored by Financial Control function. In 2012, the Company did not expose to material interest rate risk as its interest bearing assets were mainly bank deposits and short-term placements.

4 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2013, if market interest rates had been 1% higher with other variables held constant, loss before taxation (2012: profit before taxation) for the year would have been HK$1.0 million lower (2012: HK$3.8 million higher). The extent of decrease in interest rates is expected to be minimal (2012: minimal decrease) which would increase the Company's loss before taxation (2012: decrease the profit before taxation) by an insignificant amount at 31 December 2013 (2012: insignificant amount).

The table below summarises the Company's exposure to interest rate risk. It includes the Company's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2013

	Within 1 month $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Non-interest bearing* $'000	*Total* $'000
Assets						
Cash and balances with banks	25,280	-	-	-	2,090	27,370
Placements with banks	208,793	558,387	251,638	-	-	1,018,818
Loans and advances to customers	134,497	17,034	2,928	-	(558)	153,901
Available-for-sale financial assets	-	-	6,388	41,226	-	47,614
Fixed assets	-	-	-	-	13,820	13,820
Intangible assets	-	-	-	-	6,810	6,810
Deferred tax assets	-	-	-	-	4,782	4,782
Current tax recoverable	-	-	-	-	424	424
Other assets	-	-	-	-	13,662	13,662
Total assets	368,570	575,421	260,954	41,226	41,030	1,287,201
Liabilities						
Deposits from customers	148,228	567,670	251,663	-	-	967,561
Deposits from banks	129,113	1,874	-	-	-	130,987
Derivative financial liabilities	-	-	-	-	302	302
Current tax payable	-	-	-	-	446	446
Other liabilities	-	-	-	-	11,825	11,825
Total liabilities	277,341	569,544	251,663	-	12,573	1,111,121
Net repricing gap	91,229	5,877	9,291	41,226	28,457	176,080

4 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

At 31 December 2012

	Within 1 month $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Non-interest bearing* $'000	*Total* $'000
Assets						
Cash and balances with banks	58,689	-	-	-	134,684	193,373
Placements with banks	320,728	-	-	-	-	320,728
Current tax recoverable	-	-	-	-	3,479	3,479
Other assets	-	-	-	-	2,049	2,049
Total assets	379,417	-	-	-	140,212	519,629
Liabilities						
Total liabilities	-	-	-	-	-	-
Net repricing gap	379,417	-	-	-	140,212	519,629

The table below summarises the effective interest rates for interest-bearing financial instruments at the reporting date:

	2013 %	*2012* %
Assets		
Cash and balances with banks	0.01	0.15
Placements with banks	4.79	0.38
Loans and advances to customers	2.70	-
Available-for-sale financial assets	6.20	-
Liabilities		
Deposits from customers	3.52	-
Deposits from banks	1.88	-

4 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due, and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

In 2013, the Company's liquidity management process, managed by Treasury Department included:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting took the form of cash flow measurement and projections for the next day, week and month respectively, as these were key periods for liquidity management.

Treasury Department also monitored unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities.

Financial Control function validated liquidity ratios and reported exceptions to Asset and Liability Committee ("ALCO").

Sources of liquidity were regularly reviewed by Treasury Department to maintain a diversification by provider, product and term.

In 2012, the Company's liquidity risk was not significant.

4 Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis

The table below sets out the maturity profile of assets and liabilities analysed by the remaining period to repayment as at the reporting date:

At 31 December 2013

	Repayable on demand $'000	*Within 1 month* $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Undated* $'000	*Total* $'000
Assets							
Cash and balances with banks	27,370	-	-	-	-	-	27,370
Placements with banks	-	208,793	558,387	251,638	-	-	1,018,818
Loans and advances to customers	-	53,417	65,039	3,888	32,115	(558)	153,901
Available-for-sale financial assets	-	-	-	6,388	41,226	-	47,614
Fixed assets	-	-	-	-	-	13,820	13,820
Intangible assets	-	-	-	-	-	6,810	6,810
Deferred tax assets	-	-	-	-	-	4,782	4,782
Current tax recoverable	-	-	-	424	-	-	424
Other assets	-	4,306	3,145	1,590	1,205	3,416	13,662
Total assets	27,370	266,516	626,571	263,928	74,546	28,270	1,287,201
Liabilities							
Deposits from customers	-	148,228	567,670	251,663	-	-	967,561
Deposits from banks	-	129,113	1,874	-	-	-	130,987
Derivative financial liabilities	-	-	-	-	-	302	302
Current tax payable	-	-	294	152	-	-	446
Other liabilities	-	646	2,210	1,154	-	7,815	11,825
Total liabilities	-	277,987	572,048	252,969	-	8,117	1,111,121
Net liquidity gap	27,370	(11,471)	54,523	10,959	74,546	20,153	176,080

4 Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Maturity analysis (continued)

At 31 December 2012

	Repayable on demand $'000	*Within 1 month* $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Undated* $'000	*Total* $'000
Assets							
Cash and balances with banks	193,373	-	-	-	-	-	193,373
Placements with banks	-	320,728	-	-	-	-	320,728
Current tax recoverable	-	-	-	3,479	-	-	3,479
Other assets	-	49	-	-	-	2,000	2,049
Total assets	193,373	320,777	-	3,479	-	2,000	519,629
Liabilities							
Total liabilities	-	-	-	-	-	-	-
Net liquidity gap	193,373	320,777	-	3,479	-	2,000	519,629

4 Financial risk management (continued)

(c) Liquidity risk (continued)

(ii) Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Company under non-derivative financial liabilities and derivative financial instruments by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating based on rates current at the reporting date), whereas the Company manages the inherent liquidity risk based on expected undiscounted cash inflows.

At 31 December 2013

	Within 1 month $'000	*Over 1 month but within 3 months* $'000	*Over 3 months but within 1 year* $'000	*Over 1 year but within 5 years* $'000	*Total* $'000
Non-derivative financial liabilities					
Deposits from customers	148,425	573,180	257,064	-	978,669
Deposits from banks	129,655	1,879	-	-	131,534
Other liabilities	1,539	5,405	21	289	7,254
	279,619	580,464	257,085	289	1,117,457
Derivative cash flow settled on a gross basis					
Total inflow	-	100,328	-	-	100,328
Total outflow	-	(100,758)	-	-	(100,758)
	-	(430)	-	-	(430)

As at 31 December 2012, the Company had no financial liabilities.

4 Financial risk management (continued)

(d) Capital management

Being an authorised institution incorporated in Hong Kong, the Company is regulated by the HKMA who sets and monitors capital requirements for the Company.

The HKMA has issued the Banking (Capital) Rules, according to which the Company is required to maintain adequate regulatory capital to support credit risk, market risk and operational risk.

In addition to meeting the regulatory requirements, the Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Company monitors its capital structure on the basis of the capital adequacy ratio as calculated in accordance with the Banking (Capital) Rules. The Company has adopted the Standardised (Credit Risk) Approach of calculating credit risk for non-securitisation exposures.

Throughout the years ended 31 December 2013 and 2012, the Company has complied with the capital requirements imposed by the HKMA.

4 Financial risk management (continued)

(e) Fair value of financial assets and liabilities

(i) Financial assets and liabilities measured at fair value

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Company measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: fair value measured using quoted market prices (unadjusted) in active markets for identical assets and liabilities.

- Level 2: fair value measured using valuation techniques based on observable inputs, either directly or indirectly. This category includes quoted prices in active markets for similar financial instruments, or quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: fair value measured using significant unobservable inputs. This category includes inputs to valuation techniques not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect difference between the instruments.

Where available, the most suitable measure for fair value is the quoted market price. In absence of organised secondary markets for most of the unlisted securities and over-the-counter derivatives, direct market prices of these financial instruments may not be available. The fair values of such instruments are therefore calculated based on established valuation techniques using current market parameters or market prices provided by counterparties.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.

4 Financial risk management (continued)

(e) Fair value of financial assets and liabilities (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The table below analyses financial instruments, measured at fair value as at 31 December 2013, by the level in the fair value hierarchy into which the fair value treatment is categorised:

	Level 1 $'000	*Level 2* $'000	*Level 3* $'000	*Total* $'000
Recurring fair value measurements				
Assets				
Available-for-sale financial assets	-	47,614	-	47,614
Liabilities				
Derivative financial liabilities	-	302	-	302

As at 31 December 2012, there were no financial assets or liabilities carried at fair value.

(ii) Financial assets and liabilities not measured at fair value

Financial assets and liabilities that are presented not at their fair value on the statement of financial position mainly represent cash and balances with banks, placements with banks, and loans and advances to customers. These financial assets are measured at amortised cost less impairment. Financial liabilities not presented at their fair value on the statement of financial position mainly represent deposits from banks and deposits from customers. These financial liabilities are measured at amortised cost.

The Company assessed that the differences between fair values and carrying amounts of those financial assets and liabilities not presented on the Company's statement of financial position at their fair values are minimal as most of the Company's financial assets and liabilities are either short-term or priced at floating rates.

5 Net interest income

	2013 $'000	*2012* $'000
Interest income		
Interest income arising from financial assets that are not measured at fair value through profit or loss		
- Balances and placements with banks	7,082	3,016
- Loans and advances to customers	1,734	-
- Unlisted available-for-sale investments	1,052	-
	9,868	3,016
Interest expense		
Interest expense arising from financial liabilities that are not measured at fair value through profit or loss		
- Deposits from banks	(809)	-
- Deposits from customers	(4,572)	-
- Others	(4)	-
	(5,385)	-
Net interest income	4,483	3,016

There were no interest income accrued on impaired financial assets and on unwinding of discount on loan impairment losses for the years ended 31 December 2013 and 2012.

6 Net fee and commission income

	2013	*2012*
	$'000	$'000
Fee and commission income		
- Credit facilities	11,426	-
- Trade services	115	-
- Account services	11	-
	11,552	-
Fee and commission expense	(106)	-
Net fee and commission income	11,446	-

All the fee and commission income of HK$11,552,000 (2012: Nil) and fee and commission expense of HK$106,000 (2012: Nil) for the year ended 31 December 2013 are arising from financial assets and financial liabilities that are not measured at fair value through profit or loss.

No net fee and commission income are arising from trust or other fiduciary activities where the Company holds or invests on behalf of its customers for the years ended 31 December 2013 and 2012.

7 Net trading gain

	2013	*2012*
	$'000	$'000
Net foreign exchange gain	78	-

8 Operating expenses

	2013	*2012*
	$'000	$'000
Staff costs		
- Salaries and other benefits	21,411	-
- Pension and provident fund costs	1,371	-
	22,782	-
Premises and equipment expenses excluding depreciation		
- Rental of premises	4,764	-
- Maintenance and office facility expenses	603	-
- Others	428	-
	5,795	-
Auditor's remuneration	408	-
Depreciation of fixed assets	2,759	-
Amortisation of intangible assets	928	-
Legal and professional fees	5,319	6
IT and system expenses	4,777	-
Other operating expenses	1,586	379
	15,777	385
	44,354	385

9 Loan impairment charges

	2013	*2012*
	$'000	$'000
Loan impairment charges (note 15(b))	558	-
Representing:		
New provision (note 15(b))	558	-

10 Directors' emoluments

	2013 $'000	*2012* $'000
Fees	70	-
Other emoluments	2,893	-
Contribution to provident fund	175	-
	3,138	-

11 Taxation

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

	2013 $'000	*2012* $'000
Current tax		
Hong Kong Profits Tax		
– Provision for the year	-	434
– Over-provision in prior year	-	(151)
	-	283
Taxation outside Hong Kong		
– Withholding tax in the People's Republic of China	446	-
	446	283
Deferred tax		
Origination and reversal of temporary differences	(4,782)	-
	(4,336)	283

The provision of Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year.

11 Taxation (continued)

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

	2013 $'000	*2012* $'000
(Loss)/profit before taxation	(28,904)	2,720
Notional tax on (loss)/profit before tax, calculated at the tax rate of 16.5%	(4,769)	449
Tax effect of income not subject to taxation	-	(15)
Over-provision in prior year	-	(151)
Foreign withholding tax	446	-
Others	(13)	-
	(4,336)	283

12 Other comprehensive income

(a) Tax effects relating to each component of other comprehensive income

	2013			*2012*		
	Before tax amount $'000	*Tax expense* $'000	*Net-of-tax amount* $'000	*Before tax amount* $'000	*Tax expense* $'000	*Net-of-tax amount* $'000
Available-for-sale financial assets: net movement in available-for-sale fair value reserve	950	-	950	-	-	-
Other comprehensive income	950	-	950	-	-	-

(b) Components of other comprehensive income

	2013 $'000	*2012* $'000
Available-for-sale financial assets:		
Changes in fair value recognised during the year	950	-
Net movement in available-for-sale fair value reserve during the year recognised in other comprehensive income	950	-

13 Cash and balances with banks

	2013	*2012*
	$'000	$'000
Balances with banks	27,370	193,373

14 Placements with banks

	2013	*2012*
	$'000	$'000
Placements with banks		
– maturing within one month	208,793	320,728
– maturing between one and twelve months	810,025	-
	1,018,818	320,728

15 Loans and advances to customers

(a) Loans and advances to customers

	2013	*2012*
	$'000	$'000
Gross loans and advances to customers	154,459	-
Less: loan impairment allowances		
– individually assessed	-	-
– collectively assessed	(558)	-
	153,901	-

There were no impaired loans and advances to customers as at 31 December 2013 and 2012.

15 Loans and advances to customers (continued)

(b) Loan impairment allowances against loans and advances to customers

	Individually assessed $'000	*Collectively assessed* $'000	*Total* $'000
At 1 January 2012 and 31 December 2012	-	-	-
New impairment allowances charges	-	(558)	(558)
At 31 December 2013	-	(558)	(558)

(c) Gross loans and advances to customers by industry sector

	2013 $'000	*2013* % of gross advances covered by collateral	*2012* $'000	*2012* % of gross advances covered by collateral
Gross loans and advances to customers for use in Hong Kong				
Industrial, commercial and financial sectors				
– manufacturing	31,000	12.9	-	-
– wholesale and retail trade	55,000	29.1	-	-
Total gross loans and advances for use in Hong Kong	86,000	23.3	-	-
Trade finance	36,344	11.1	-	-
Gross loans and advances for use outside Hong Kong	32,115	100.0	-	-
Gross loans and advances to customers	154,459	36.4	-	-

15 Loans and advances to customers (continued)

(d) Segmental analysis of loans and advances to customers by geographical area

Loans and advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when a loan is guaranteed by a party located in an area that is different from that of the counterparty.

	Gross loans and advances $'000	*Individually impaired loans and advances* $'000	*Overdue loans and advances* $'000	*Individually assessed allowances* $'000	*Collectively assessed allowances* $'000
At 31 December 2013					
– Hong Kong	122,344	-	-	-	(442)
– Rest of Asia-Pacific	32,115	-	-	-	(116)
	154,459	-	-	-	(558)
At 31 December 2012	-	-	-	-	-

16 Available-for-sale financial assets

	2013 $'000	*2012* $'000
Certificates of deposit held	6,388	-
Debt securities	41,226	-
	47,614	-
Issued by:		
– Banks	6,388	-
– Corporates	41,226	-
	47,614	-
Analysed by listing status:		
– Unlisted	47,614	-

As at 31 December 2013, there were no available-for-sale debt securities individually determined to be impaired.

17 Fixed assets

Details of movement of fixed assets are as follows:

	Leasehold improvements $'000	*Furniture, computer and other equipment* $'000	*Motor vehicles* $'000	*Total* $'000
Cost:				
At 1 January 2012 and 31 December 2012	-	-	-	-
Additions	5,298	10,274	1,007	16,579
At 31 December 2013	5,298	10,274	1,007	16,579
Accumulated depreciation:				
At 1 January 2012 and 31 December 2012	-	-	-	-
Charge for the year	(1,124)	(1,488)	(147)	(2,759)
At 31 December 2013	(1,124)	(1,488)	(147)	(2,759)
Net book value:				
At 31 December 2013	4,174	8,786	860	13,820
At 31 December 2012	-	-	-	-

The Company leases equipment under finance leases expiring 5 years. None of the leases included contingent rentals.

18 Intangible assets

	2013 $'000	*2012* $'000
Acquired software	6,660	-
Club membership	150	-
	6,810	-

Details of movement of intangible assets are as follows:

	2013 $'000	*2012* $'000
Cost:		
At 1 January	-	-
Additions	7,738	-
At 31 December	7,738	-
Accumulated amortisation:		
At 1 January	-	-
Charge for the year (note 8)	(928)	-
At 31 December	(928)	-
Net book value:		
At 31 December	6,810	-

During 2013, there was no impairment on intangible assets.

19 Other assets

	2013	*2012*
	$'000	$'000
Interest receivable	6,766	-
Fee receivable	3,480	-
Prepaid expenses	1,607	-
Others	1,809	2,049
	13,662	2,049

20 Deposits from customers

	2013	*2012*
	$'000	$'000
Deposits from customers		
– Time, call and notice deposits	967,561	-

21 Income tax in the statement of financial position

(a) Current tax in the statement of financial position represents:

	2013	*2012*
	$'000	$'000
Provision for Hong Kong Profits Tax for the year	-	434
Provisional Profits Tax paid	(434)	(3,913)
Balance of provision of Profits Tax relating to prior year	10	-
	(424)	(3,479)
Provision of withholding tax in the People's Republic of China	446	-
	22	(3,479)

Representing:

	2013	*2012*
Current tax recoverable	(424)	(3,479)
Current tax payable	446	-
	22	(3,479)

21 Income tax in the statement of financial position (continued)

(b) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the statement of financial position and the movement during the year are as follows:

	Depreciation allowances in excess of the related depreciation $'000	*Amortisation of intangible assets* $'000	*Loan impairment allowance* $'000	*Tax losses* $'000	*Others* $'000	*Total* $'000
At 1 January 2012 and 31 December 2012	-	-	-	-	-	-
Charged/(credited) to statement of comprehensive income	845	1,099	(92)	(6,602)	(32)	(4,782)
At 31 December 2013	845	1,099	(92)	(6,602)	(32)	(4,782)

At 31 December 2013 and 2012, there were no significant deferred tax assets or liabilities not recognised.

22 Other liabilities

	2013 $'000	*2012* $'000
Interest payable	4,010	-
Accounts payable	40	-
Accrued expenses	1,497	-
Provision for short term employee benefits	5,000	-
Obligations under finance leases	107	-
Others	1,171	-
	11,825	-

22 Other liabilities (continued)

At 31 December 2013, the Company had obligation under finance leases repayable as follows:

	2013 Present value of the minimum lease payment $'000	Total minimum lease payment $'000	*2012* Present value of the minimum lease payment $'000	Total minimum lease payment $'000
Within 1 year	22	29	-	-
After 1 year but within 5 year	85	95	-	-
	107	124	-	-
Less: Total future interest expense		(17)		-
Present value of lease obligations		107		-

23 Capital and reserves

(a) Share capital

	2013 No. of shares '000	$'000	*2012* No. of shares '000	$'000
Authorised:				
Ordinary shares of $10 each	50,000	500,000	50,000	500,000
Issued and fully paid:				
At 1 January	25,000	250,000	25,000	250,000
Share repurchase	(5,000)	(50,000)	-	-
At 31 December	20,000	200,000	25,000	250,000

In 2013, the Company repurchased 5,000,000 shares at par pursuant to the special resolution passed by the shareholders.

23 Capital and reserves (continued)

(b) Dividends

Dividends approved and paid during the year

	2013	*2012*
	$'000	$'000
Interim dividend of HK$13.49 per share (2012: HK$48 per share)	269,931	1,200,000

(c) Nature and purpose of reserves

(i) Available-for-sale fair value reserve

This comprises the cumulative net change in the fair value of available-for-sale financial assets until the financial assets are derecognised and is dealt with in accordance with the accounting policies adopted for the measurement of the available-for-sale financial assets at fair value.

(ii) Retained profits/accumulated losses

The Company is required to maintain minimum capital adequacy ratio set by the HKMA. The minimum capital requirements could therefore potentially restrict the amount of retained profits available for distribution to the shareholders.

(iii) Regulatory reserve

Regulatory reserve is maintained in accordance with Hong Kong Banking regulations. At 31 December 2013, a regulatory reserve of HK$986,000 (2012: Nil) was maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movement in this reserve is made directly through retained profits and in consultation with the HKMA. The regulatory reserve is non-distributable.

24 Material related party transactions

As disclosed in note 1(a), the Company's controller changed from China Construction Bank (Asia) Corporation Limited ("CCB Asia") to Bank of Shanghai Co., Limited on 30 May 2013, the Company's related parties before and after the change of controller are different.

In 2012 and the period from 1 January 2013 to 30 May 2013, the Company entered into transactions with related parties in the normal course of business including placement of inter-bank deposits. From 30 May 2013 onwards, the Company entered into transactions with related parties in the normal course of business including accepting and placement of inter-bank deposits, correspondent banking transactions and foreign exchange transactions. All these related party transactions were priced at the relevant market rates at the time of each transaction.

(a) *The amount of material related party transactions during the year and outstanding balances at the reporting date are set out below:*

	2013		*2012*
	Immediate holding company	*Former immediate holding company*	*Former immediate holding company*
	$'000	$'000	$'000
Statement of comprehensive income:			
Interest income	-	373	2,885
Interest expense	(22)	-	-
Operating expense	-	-	(68)
Statement of financial position:			
Cash and balances with banks	-	N/A	58,688
Placement with banks	-	N/A	320,728
Other assets	-	N/A	49

(b) *Directors and key management personnel*

During the year, the Company has not provided any credit facilities nor accepted any deposits from the directors and key management personnel of the Company and its holding companies and their close family members and companies controlled or significantly influenced by them.

24 Material related party transactions (continued)

(b) Directors and key management personnel (continued)

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 10, is as follows:

	2013 $'000	*2012* $'000
Salaries and other benefits	5,507	-
Contribution to provident fund	476	-
Variable bonuses	2,290	-

25 Derivative financial instruments

Derivatives entered into by the Company include foreign exchange forwards and swaps contracts. The Company uses these derivatives in its own assets and liabilities management and also sells to customers as risk management products. For those positions entered with customers, they are actively managed through entering offsetting deals with external parties to ensure the Company's net exposures are within acceptable risk levels. No significant proprietary positions are maintained by the Company at 31 December 2013. At 31 December 2012, the Company did not entered into any derivative transaction.

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these instruments indicate the volume of outstanding transactions and do not represent amounts at risk.

At 31 December 2013

	Qualifying for hedge accounting $'000	*Managed in conjunction with financial instruments designated at fair value through profit or loss* $'000	*Others, including held for trading* $'000	*Total* $'000
Exchange rate contracts				
swaps	-	-	100,328	100,328

All these derivatives are with residual maturity of one year or less.

25 Derivative financial instruments (continued)

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

Credit risk-weighted amounts refer to the amount as computed in accordance with the Banking (Capital) Rules and depend on the status of the counterparty and the residual maturity of the transaction. The risk-weight used for derivatives outstanding at 31 December 2013 is 20%.

At 31 December 2013

	Derivative financial assets $'000	*Derivative financial liabilities* $'000	*Credit risk-weighted amounts* $'000
Exchange rate contracts			
swaps	-	302	201

The Company did not enter into any bilateral netting agreement during the year and accordingly these amounts are shown on gross basis.

26 Contingent liabilities and commitments

(a) Contingent liabilities and commitment to extend credit

	2013 $'000	*2012* $'000
Contract amounts		
Trade-related contingencies	1,007	-
Other commitments		
- which are unconditionally cancellable	54,649	-
	55,656	-
Credit risk weighted amounts	201	-

Contingent liabilities and commitments are credit related instruments. The risk involved in these credit-related instruments is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

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

26 Contingent liabilities and commitments (continued)

(b) Lease commitments

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2013 $'000	*2012* $'000
Within 1 year	6,070	-
After 1 year but within 5 years	7,615	-
	13,685	-

The Company leases a property under operating leases. The lease runs for an initial period of 3 years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

27 Loans to officers

Particulars of loans made to officers and disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	2013 $'000	*2012* $'000
Aggregate amount in respect of principal and interest as at 31 December	-	-
The maximum aggregate amount outstanding in respect of principal and interest during the year	-	-

28 Notes to statement of cash flows

(a) *Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities*

	2013 $'000	*2012* $'000
(Loss)/profit before taxation	(28,904)	2,720
Adjustments for:		
- Interest income	(9,868)	(3,016)
- Interest expense	5,385	-
- Depreciation of fixed assets	2,759	-
- Amortisation of intangible assets	928	-
- Impairment charges	558	-
- Interest received	2,577	4,823
- Interest paid	(1,375)	-
Operating (loss)/profit before changes in working capital	(27,940)	4,527
Change in balances and placements with banks with original maturity beyond three months	(258,543)	1,200,907
Change in gross loans and advances to customers	(154,459)	-
Change in other assets	(4,896)	257
Change in deposits from customers	967,561	-
Change in deposits from banks	130,987	-
Change in other liabilities	7,518	(2,823)
Elimination of exchange differences and other non-cash items	470	-
Cash generated from operating activities	660,698	1,202,868
Hong Kong Profits Tax refunded/(paid)	3,055	(1,877)
Net cash inflow from operating activities	663,753	1,200,991

28 Notes to statement of cash flows (continued)

(b) Cash and cash equivalents in the statement of cash flows:

	2013 $'000	*2012* $'000
Cash and balances with banks	27,370	193,373
Placements with banks with original maturity within three months	760,275	320,728
	787,645	514,101

(c) Reconciliation with the statement of financial position:

	2013 $'000	*2012* $'000
Cash and balances with banks (note 13)	27,370	193,373
Placements with banks	1,018,818	320,728
Amounts recognised in the statement of financial position	1,046,188	514,101
Less: Placements with banks with original maturity beyond three months	(258,543)	-
Cash and cash equivalents in the statement of cash flows	787,645	514,101

29 Immediate and ultimate holding companies

As at 31 December 2012, the Company's immediate holding company was CCB Asia, a licensed bank incorporated in Hong Kong. CCB Asia was controlled by China Construction Bank Corporation ("CCBC"). Central Huijin Investment Ltd. was the controlling party of CCBC, and was a wholly-owned subsidiary of China Investment Corporation which was a wholly state-owned investment and management company.

Since 30 May 2013, the Company's immediate and ultimate holding companies have changed to Bank of Shanghai Co., Limited. Bank of Shanghai Co., Limited produces financial statements available for public access.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013

Up to the date of issue of the financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKAS 36, *Impairment of assets – Recoverable amount disclosures for non-financial assets*	1 January 2014
Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*	1 January 2014
HKFRS 9, *Financial instruments*	Pending further announcement from HKICPA

The Company is in the process of making an assessment of what the impact of these amendments is expected to be in the initial application. So far it has concluded that the adoption of them is unlikely to have significant impact on the financial statements except for HKFRS 9, *Financial instruments*.

HKFRS 9 was issued in November 2009 and establishes new principles for the classification and measurement of financial assets. In November 2010, the HKICPA issued additions to HKFRS 9 dealing with financial liabilities. Together, these changes represent the first phase in the HKCIPA's planned replacement of HKAS 39, *Financial Instruments: Recognition and Measurement*. Since the final requirements for classification and measurement are uncertain, it remains impracticable to quantify the effect of the HKFRS 9 as at the date of the issue of these financial statements.

The second phase in the HKFRS 9 project to replace HKAS 39 will address the impairment of financial assets. It is proposed to replace the "incurred loss" approach to the impairment of financial assets carried at amortised cost in HKAS 39 with an "expected credit loss" approach, and require that the "expected credit loss" approach be applied to other categories of financial instrument, including loan commitments and financial guarantees. The final requirements for impairment of financial assets treatment are expected to be published in 2014.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013 (continued)

The third phase of the project addresses general hedge accounting. Macro hedging is not included in the HKFRS 9 project and will be considered separately. In December 2013, the HKICPA issued amendments to HKFRS 9 in respect of the general hedge accounting requirements, transition and effective date. The revised hedge accounting requirements are to be applied prospectively.

These amendments in all phases of HKFRS 9 (except for changes to the presentation of gains and losses for certain liabilities measured at fair value) must be applied from the same effective date. Given the uncertainties with regard to the final HKFRS 9 requirements for classification, measurement and impairment, the Company remains unable to provide a date by which it will apply HKFRS 9 as a whole and quantify the overall effect of HKFRS 9 as at the date of the issue of these financial statements.

31 Subsequent event

On 3 January 2014, the Company issued 140,438,500 shares of RMB10.00 each to its holding company at par to strengthen its capital position.

On 5 March 2014, the Company established a wholly-owned subsidiary in Hong Kong named BOSC International Company Limited with HK$10,000,000 in preparation of the expansion of its scope of business.

Unaudited supplementary financial information

(Expressed in Hong Kong dollars)

The notes to the financial statements and the following unaudited supplementary information are prepared to comply with the Banking (Disclosure) Rules.

1 Overdue and rescheduled assets

(a) *Gross loans and advances overdue for more than three months*

As at 31 December 2013 and 2012, there were no overdue loans and advances to customers and placements with banks.

(b) *Rescheduled loans and advances*

As at 31 December 2013 and 2012, there were no rescheduled loans and advances to customers and placements with banks.

Rescheduled loans and advances are those loans and advances which have been restructured or renegotiated because of deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised payment terms are inferior to the original payment terms. The rescheduled loans and advances are stated net of any loans and advances that have subsequently become overdue for over three months and reported as overdue loans and advances as above.

(c) *Other overdue and rescheduled assets*

At 31 December 2013 and 2012, there were no other overdue and rescheduled assets.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

2 Liquidity ratio

	2013	*2012*
	%	%
Average liquidity ratio for the year	4,167,128	6,684,810

The average liquidity ratio for the year is calculated as the simple average of each calendar month's average liquidity ratio, which is computed on a single company basis as required by the HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

3 Capital adequacy ratio and capital management

The Banking (Capital) (Amendment) Rules 2012, effective from 1 January 2013, stipulates the first phase of Basel III requirements to be applied in Hong Kong. This has changed the minimum capital ratio requirements as well as the definition of regulatory capital. Therefore, the capital disclosures as of 31 December 2013 may not be equitably comparable with the disclosures as of 31 December 2012, and certain comparative figures are not provided in this report.

(a) Capital ratios

The capital ratios as of 31 December 2013 are as follows:

	2013
Common Equity Tier 1 ("CET1") capital ratio	23.3%
Tier 1 capital ratio	23.3%
Total capital ratio	23.5%

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(a) Capital ratios (continued)

The capital adequacy ratios as of 31 December 2012 are as follows:

	2012
Capital adequacy ratio	20.5%
Core capital adequacy ratio	20.5%

In calculating the risk-weighted assets, the Company has adopted the Standardised (Credit Risk) Approach for credit risk. For operational risk, the capital requirement is determined by using the Basic Indicator Approach. The Company is exempted under Section 22(1) of the Banking (Capital) Rules from calculation of market risk in capital adequacy assessment.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(b) Capital structure

The capital base after all required deductions for calculation of capital adequacy ratio purpose as of 31 December 2013 is shown below:

	2013 $'000
CETl capital	
Shareholder's equity	176,080
Regulatory deductions from CETI capital	
– Deferred tax assets in excess of deferred tax liabilities	(5,881)
– Intangible assets	(5,711)
– Regulatory reserve	(986)
Total CET1 capital	163,502
Additional Tier 1 ("AT1") capital	
Total AT1 capital before regulatory deductions	-
Regulatory deductions from AT1 capital	-
Total AT1 capital	-
Total Tier 1 ("T1") capital	163,502
Tier 2 ("T2") capital	
Total T2 capital before regulatory deductions	
– Collective provisions	558
– Regulatory reserve	986
Regulatory deductions from T2 capital	-
Total T2 capital	1,544
Total capital	165,046

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(b) Capital structure (continued)

The capital base after all required deductions for calculation of capital adequacy ratios reported to the HKMA as of 31 December 2012 is shown below:

	2012 $'000
Core capital	
Paid-up ordinary share capital	250,000
Published reserves	267,192
Profit and loss account	2,437
Total core capital before deductions	519,629
Less: Deductions from core capital	(379,467)
Total core capital after deductions	140,162
Supplementary capital	
Total supplementary capital after deductions	-
Total capital base before deductions	519,629
Total deductions from total capital base	(379,467)
Total capital base after deductions	140,162

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(c) Additional capital disclosures

The following items are included in the "Regulatory Disclosure" section in our website at www.bankofshanghai.com.hk:

- A detailed breakdown of the Company's CET1 capital, AT1 capital, T2 capital and regulatory deductions, using the standard template as specified by the HKMA.
- A full reconciliation between the Company's CET1 capital, AT1 capital, T2 capital and regulatory deductions and the Company's statement of financial position in the financial statements.
- A description of the main features and the full terms and conditions of the Company's capital instruments.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(d) Credit risk

(i) Capital requirement

The capital requirement on each class of exposures calculated under the Standardised (Credit Risk) Approach at the reporting date are summarised as follows:

	2013 $'000	*2012* $'000
Class of exposures		
Bank	24,632	2,155
Corporate	12,798	-
Other exposures which are not past due exposures	1,413	438
Total capital requirement for on-balance sheet exposures	38,843	2,593
Trade-related contingencies	16	-
Commitments that are unconditionally cancellable	-	-
Exchange rate contracts	16	-
Credit valuation adjustment	44	-
Total capital requirement for off-balance sheet exposures	76	-
	38,919	2,593

The capital requirement is made by multiplying the Company's risk-weighted amounts derived from the relevant calculation approach by 8 per cent. The Company's capital as at 31 December 2013 was HK$165,006,000 (2012: HK$140,162,000), which well exceeded the aforesaid capital requirement.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(d) Credit risk (continued)

(ii) Analysis of credit risk exposures and risk-weighted amounts

The Company uses the credit ratings from the following external credit assessment institutions ("ECAIs") for all classes of credit exposures mentioned below:

- Moody's Investors Services
- Standard and Poor's Rating Services

The process used to map ECAIs issue specific rating to the exposures recorded in the Company's banking book is consistent with those prescribed in the Banking (Capital) Rules.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(d) Credit risk (continued)

(ii) Analysis of credit risk exposures and risk-weighted amounts (continued)

An analysis of the credit risk of the Company by class of exposures at the reporting date is reported below:

At 31 December 2013

	¹Total Exposures	Exposures covered by recognised credit risk mitigation		Exposures after recognised credit risk mitigation		Risk weighted amount		
		Collateral	Guarantees	Rated	Unrated	Rated	Unrated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Class of exposures								
On-balance sheet:								
– Bank	1,057,787	-	-	1,090,510	-	307,905	-	307,905
– Corporate	200,721	8,029	32,723	117,592	42,377	117,592	42,377	159,969
– Other exposures which are not past due exposures	17,660	-	-	-	17,660	-	17,660	17,660
	1,276,168	8,029	32,723	1,208,102	60,037	425,497	60,037	485,534
Off-balance sheet:								
– Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	55,656	-	-	-	55,656	-	201	201
– OTC derivative transactions	1,003	-	-	1,003	-	201	-	201
	56,659	-	-	1,003	55,656	201	201	402
Total	1,332,827	8,029	32,723	1,209,105	115,693	425,698	60,238	485,936
Exposures deducted from capital base	-							

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(d) Credit risk (continued)

(ii) Analysis of credit risk exposures and risk-weighted amounts (continued)

At 31 December 2012

	Total exposures[1]	Exposures covered by recognised credit risk mitigation		Exposures after recognised credit risk mitigation		Risk weighted amount		
		Collateral	Guarantees	Rated	Unrated	Rated	Unrated	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Class of exposures								
On-balance sheet:								
– Bank	134,684	-	-	134,684	-	26,937	-	26,937
– Other exposures which are not past due exposures	5,479	-	-	-	5,479	-	5,479	5,479
Total	140,163	-	-	134,684	5,479	26,937	5,479	32,416
Exposures deducted from capital base	379,467							

[1] Total exposures represent the principal amount or credit equivalent amount, as applicable, net of individually assessed impairment allowances. Among the total exposures reported above, there was no credit exposure risk-weighted at 1250% (2012: Nil).

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(e) Credit risk mitigation

As mentioned in note 4(a) to the financial statements on the credit risk management of the Company, the Company has established policies in managing and recognising credit risk mitigation, one of which is the taking of collateral and other credit enhancements. The principal types of collateral taken by the Company are also those of the recognised credit risk mitigation as prescribed in the Banking (Capital) Rules.

For regulatory capital calculation, the Company adheres to the criteria as stipulated in the Banking (Capital) Rules when assessing the eligibility of the credit risk mitigation.

Recognised collateral include both financial and physical collateral. Financial collateral include cash deposit whilst physical collateral include real estate. The exposure amount after mitigation is determined by applying the standard supervisory haircut stipulated in the Banking (Capital) Rules as an adjustment discount to the current collateral value.

On-balance sheet and off-balance sheet recognised netting is not adopted by the Company.

(f) Counterparty credit risk-related exposures

Regarding the Company's counterparty credit risk arising from the OTC derivative transactions, under both the banking and trading book, the Company's credit risk management framework as set out in note 4(a) to the financial statements applies. The Company manages and monitors the risk exposures by determining the current exposure amount of the transactions.

There were neither repo-style transactions nor credit derivative contracts entered by the Company at 31 December 2013 and 2012.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(f) Counterparty credit risk-related exposures (continued)

(i) Analysis of counterparty credit risk exposure showing effect of credit risk mitigation

	2013 $'000	*2012* $'000
OTC derivative transactions:		
Gross total positive fair value	-	-
Credit equivalent amount	1,003	-
Value of recognised collateral	-	-
Credit equivalent amount or net credit exposures net of recognised collateral held	1,003	-
Risk-weighted amounts	201	-
Notional amounts of recognised credit derivative contracts that provide credit protection	-	-

(ii) Analysis of counterparty credit risk exposure by counterparty type

	2013		
	Contract amount $'000	*Credit equivalent amount* $'000	*Risk-weighted amount* $'000
Banks	100,328	1,003	201

	2012		
	Contract amount $'000	*Credit equivalent amount* $'000	*Risk-weighted amount* $'000
Banks	-	-	-

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

3 Capital adequacy ratio and capital management (continued)

(g) *Asset securitisation*

There was no asset securitisation for which the Company is an originating institution or an investing institution as at 31 December 2013 and 2012.

(h) *Operational risk*

	2013	*2012*
	$'000	$'000
Capital charge for operational risk	17,223	52,090

4 Analysis of gross loans and advances to customers based on internal classification used by the Company

Gross loans and advances, individually impaired loans and advances, overdue loans and advances, individually assessed and collectively assessed loan impairment allowances, the amount of new impairment allowances charged to profit or loss, and the amount of impaired loans and advances written off during the year in respect of industry sectors which constitute not less than 10 per cent of gross loans and advances to customers are analysed as follows:

	Gross loans and advances	*Overdue loans and advances*	*Individually impaired loans and advances*	*Individually assessed loan impairment allowances*	*Collectively assessed loan impairment allowances*	*New impairment allowances*	*Loans and advances written off during the year*
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Manufacturing	34,989	-	-	-	(126)	126	-
Wholesale and retail trade	87,355	-	-	-	(316)	316	-
Electricity and gas	32,115	-	-	-	(116)	116	-

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

5 Cross-border claims

Cross-border claims are exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

	Banks	*Total*
	$'000	$'000
At 31 December 2013		
Asia Pacific excluding Hong Kong		
- of which China	879,572	897,572
At 31 December 2012		
Asia Pacific excluding Hong Kong		
- of which China	-	-

The geographical analysis has taken into account of transfer of risk.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

6 Segmental information

The results, assets and liabilities of the Company are attributable to its business in Hong Kong.

During 2012, the Company remained inactive and only generated interest income from balances and placements with banks. Since the change of controller on 30 May 2013, the Company has mainly focused on the provision of financial services to corporations and individuals. Senior management allocates resources and assesses the performance of the business as a whole and thus there is only one reportable segment. Therefore, no additional reportable segment and geographical information have been presented.

7 Non-bank Mainland exposures

The analysis of non-bank Mainland China exposures is based on the categories of non-bank counterparties and the types of direct exposures defined by the HKMA under the Disclosure Rules with reference to the HKMA return in respect of non-bank Mainland China exposures.

	On-balance sheet exposure $'000	*Off-balance sheet exposure* $'000	*Total exposures* $'000	*Individually assessed allowances* $'000
At 31 December 2013				
Mainland entities	64,808	-	64,808	-
Companies and individuals outside Mainland where the credit is granted for use in Mainland	13,219	-	13,219	-
	78,027	-	78,027	-

As at 31 December 2012, there were no non-bank Mainland China exposures.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

8 Currency concentrations

The Company had the following net foreign currency exposures which exceeded 10% of the net foreign currency exposure in all currencies:

	USD $'000 HK$ equivalent	*EUR* $'000 HK$ equivalent	*Other foreign currencies* $'000 HK$ equivalent	*Total foreign currencies* $'000 HK$ equivalent
At 31 December 2013				
Spot assets	48,873	104,625	956,704	1,110,202
Spot liabilities	(20,579)	(97,532)	(854,551)	(972,662)
Forward sales	-	-	(100,758)	(100,758)
Net long non-structural position	28,294	7,093	1,395	36,782

	USD $'000 HK$ equivalent	*Other foreign currencies* $'000 HK$ equivalent	*Total foreign currencies* $'000 HK$ equivalent
At 31 December 2012			
Spot assets	1,182	118	1,300
Net long non-structural position	1,182	118	1,300

As at 31 December 2013 and 2012, there was no net structural position.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

9 Interest rate exposures in banking book

In accordance with the prudential return "Interest Rate Risk Exposures" issued by the HKMA, the Company calculates, on a quarterly basis, the impact on earnings over the next 12 months under a scenario of which interest rate rises 200 basis points.

	2013	*2012*
	$'000	$'000
HKD	3,000	7,000

10 Corporate governance

The Company has fully complied with the requirements set out in the Supervisory Policy Manual module CG-1, namely "Corporate Governance of Locally Incorporated Authorized Institutions" issued by the HKMA in August 2012.

(a) *Board of Directors*

The Board is ultimately responsible for the operations and the financial soundness of the Company. In meeting its overall responsibilities to stakeholders, the Board is to:

- Ensure that the Company's management is competent by appointing a chief executive (including an alternate chief executive) with integrity, technical competence and experience in the banking business which enables him to administer the Company's affairs effectively and prudently

- Oversee the appointment of other senior executives and ensuring that they are fit and proper to manage and supervise the Company's key businesses and functions

- Approve and monitor the Company's objectives, strategies and business plan by:

  - approving annual budgets and reviewing performance against these budgets; and

  - approving the business continuity plan and ensuring it is subject to regular update.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

10 Corporate governance (continued)

(a) *Board of Directors (continued)*

- Ensure that the Company's operations are conducted prudently and within the framework of laws and policies by, among other things:
  - approving and periodically reviewing the risk management strategies and policies of the Company to ensure that they remain adequate and consistent with the Company's operating environment, and that adequate capital is held against them;
  - ensuring that senior management is implementing the strategies approved by the Board and developing suitable policies and procedures for managing the various types of risk; and
  - regularly reviewing the development of the Company's financial indicators against performance and the established risk targets.
- Ensure that the Company conducts its affairs with a high degree of integrity by, among other things, developing appropriate policies and codes of conduct that safeguard against improper or unlawful conduct.

(b) *Key committees functions and composition*

The Board has ultimate and overall responsibility for the corporate governance of the Company. To assist this role, the following committees are established:

Audit Committee exercises oversight over objectivity, credibility and integrity of the financial reporting and other mandatory professional reporting requirements, the work of the internal and external auditors and advises the Board thereon. It is chaired by the independent non-executive director and its members include two out of the three non-executive directors.

Remuneration Committee exercises oversight on the Company's remuneration system and its operation, makes recommendation to the Board on the Company's remuneration structure, annual salary adjustment and performance bonus, and determines the remuneration package of key management personnel. It is chaired by a non-executive director and includes the independent non-executive director as member.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

10 Corporate governance (continued)

(b) Key committees functions and composition (continued)

Risk and Compliance Committee assists the Board in monitoring the Company's risk profile and monitoring the Company's compliance with internal policies and statutory regulations. It is chaired by a non-executive director and its members include another non-executive director and the executive director.

Executive Committee assists the Board in conducting and managing the day-to-day business and affairs of the Company. It is chaired by the Chief Executive Officer ("CEO") and its members include Deputy CEO, Chief Risk Officer ("CRO"), Head of Finance and Heads of Business.

Credit Committee is responsible for credit management. It is chaired by the CRO and its members include CEO, Head of Finance and Heads of Business.

ALCO is responsible for monitoring liquidity risk and asset and liability management. It is chaired by the Head of Treasury and its members include the CEO, Head of Operations & Technology, CRO, Head of Finance and Heads of Business.

Operational and Technology Committee is responsible for formulating operations policies and procedures to ensure on-going operational efficiency, cost effectiveness and proper controls; review standard service charges and fees; monitoring reviewing and analysing remedial solutions for operation risk issues; formulating IT policies and practices; ensuring adequate IT control environment; and evaluating cost and effectiveness of IT systems employed by the Company. It is chaired by Head of Operations and Technology and its members include the CEO, CRO, Head of Finance, Head of Business, Head of Compliance, Head of Systems and Head of Treasury.

(c) Compliance with "Guideline on a Sound Remuneration System"

The Company has fully complied with the requirements set out in the Supervisory Policy Manual module CG-5, namely "Guideline on a Sound Remuneration System" issued by the HKMA in March 2010.

Remuneration structure

The remuneration package of staff comprise fixed salary and variable remuneration. The objective is to ensure the package is competitive in market so as to attract, retain and motivate the right talents. The proportion of variable remuneration shall vary according to roles and responsibilities.

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

10 Corporate governance (continued)

(c) Compliance with "Guideline on a Sound Remuneration System" (continued)

Remuneration structure (continued)

Fixed remuneration refers to base salary, fixed allowances and year-end guaranteed pay (if applicable). Variable remuneration, mainly cash bonus payments, is awarded based on overall performance of the Company, the relevant business units and the individual staff member, taking into account the full range of current and potential short-term and longer-term risks connected with the activities of staff which may affect the performance of the Company.

Performance management

Performance of individual staff members will be assessed against a number of pre-defined and measurable performance goals. The goals are determined according to the job responsibilities, areas of contribution covering both financial and non-financial factors, and the full adherence to the code of conduct, internal control policy, compliance standard and risk management requirements. The overall and balanced quality of staff performance is therefore measured and determined by not only financial achievement, but also non-financial indicators as an integral part of the performance management system.

On-going review of the remuneration system

The Board and the Remuneration Committee shall provide oversight of the overall remuneration matters of the Company to be consistent with its culture, strategy, risk tolerance and control environment. The Remuneration Committee shall review the remuneration policy and system periodically or whenever necessary with the remuneration of the compliance and human sources management.

Remuneration for key management personnels

	2013	*2012*
Number of key management personnels (note (i))	6	-

	2013 $'000	*2012* $'000
Fixed remuneration (note (ii))		
- Cash	4,076	-
Variable remuneration		
- Cash	2,290	-

Unaudited supplementary financial information (continued)

(Expressed in Hong Kong dollars)

10 Corporate governance (continued)

(c) Compliance with "Guideline on a sound remuneration system" (continued)

Remuneration for key management personnels (continued)

All six key management personnels have been awarded sign-on bonus with a total of HK$1,837,000 in 2013. No key management personnel has been awarded guaranteed bonus, deferred variable remuneration or severance payment in 2013.

Notes:

(i) Key management personnel refers to members of Executive Committee.

(ii) The fixed remuneration included employer's contribution to provident fund.