

BOCI ASIA LIMITED
中銀國際亞洲有限公司

2017 INTERIM REPORT

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2017

		Unaudited Six months ended 30 June	
	Note	2017 HK\$	2016 HK\$
Revenue	4a	1,294,549,660	1,083,797,351
Trading gain/(loss), net	4b	577,360,767	(116,803,718)
Other income		112,942,390	176,166,314
Total income		<u>1,984,852,817</u>	<u>1,143,159,947</u>
Commission and clearing expenses		(336,664,460)	(278,555,935)
Staff costs		(213,094,206)	(228,470,049)
Operating lease rental in respect of leased premises		(31,157,938)	(30,656,462)
Depreciation		(30,060)	(176,644)
Information technology and communications expenses		(60,460,200)	(59,089,769)
Management fees to related companies		(256,962,648)	(236,493,902)
Other operating expenses		(49,149,526)	(42,659,909)
		<u>(947,519,038)</u>	<u>(876,102,670)</u>
Finance costs		(57,433,253)	(69,418,999)
Profit before taxation		<u>979,900,526</u>	<u>197,638,278</u>
Income tax expense	5	(118,894,171)	(15,036,498)
Profit after taxation for the period		<u>861,006,355</u>	<u>182,601,780</u>
Profit attributable to: Equity holders of the Company		<u>861,006,355</u>	<u>182,601,780</u>

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Unaudited Six months ended 30 June	
	2017 HK\$	2016 HK\$
Profit after taxation for the period	861,006,355	182,601,780
Total comprehensive income for the period	<u>861,006,355</u>	<u>182,601,780</u>
Attributable to: Equity holders of the Company	<u>861,006,355</u>	<u>182,601,780</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2017

	Note	Unaudited 30 June 2017 HK\$	Audited 31 December 2016 HK\$
NON-CURRENT ASSETS			
Plant and equipment	6	18,701	48,761
Intangible assets		49,715,218	49,715,218
Available-for-sale financial assets	7	355,000	355,000
Statutory deposits and other assets		100,257,368	102,488,896
Deferred income tax assets		1,183,658	1,312,198
Total non-current assets		151,529,945	153,920,073
CURRENT ASSETS			
Financial assets at fair value through profit or loss	8	2,144,129,879	3,327,798,641
Held-to-maturity financial assets	9	149,826,779	149,839,110
Derivative financial instruments	10	255,546,733	169,252,385
Loans and receivables	11	24,722,948,230	18,719,067,794
Amounts due from the immediate holding company	14	1,709,988,442	985,935,698
Amounts due from fellow subsidiaries	13	63,539,411	-
Amounts due from a related company	14	8,392,496	1,992,387
Cash and balances with banks	12	7,371,139,928	7,624,810,921
Taxation recoverable		-	53,510,568
Total current assets		36,425,511,898	31,032,207,504
CURRENT LIABILITIES			
Bank loans and other borrowings-unsecured		-	90,002,466
Subordinated loans from the immediate holding company	14	2,500,000,000	2,500,000,000
Amounts due to the immediate holding company	14	6,754,427,826	5,170,669,442
Amounts due to fellow subsidiaries	13	-	2,385,132,096
Amounts due to a related company	14	5,753,805	5,558,585
Accounts and other payables	15	10,489,256,422	5,432,500,991
Deposits from customers	16	7,680,615,212	7,759,645,415
Derivative financial instruments	10	580,419,835	239,259,329
Financial liabilities at fair value through profit or loss	17	97,159,235	60,265,161
Taxation payable		65,309,061	-
Total current liabilities		28,172,941,396	23,643,033,485
NET CURRENT ASSETS		8,252,570,502	7,389,174,019
TOTAL ASSETS LESS CURRENT LIABILITIES		8,404,100,447	7,543,094,092

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 30 JUNE 2017

	Note	Unaudited 30 June 2017 HK\$	Audited 31 December 2016 HK\$
TOTAL ASSETS LESS CURRENT LIABILITIES		8,404,100,447	7,543,094,092
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NON-CURRENT LIABILITIES			
Accounts and other payables	15	39,589,769	39,589,769
		-----	-----
Total non-current liabilities		39,589,769	39,589,769
		-----	-----
Net assets		8,364,510,678	7,503,504,323
		=====	=====
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	18	2,000,000,000	2,000,000,000
Reserve for fair value change of available-for-sale financial assets		15,000	15,000
Retained earnings		6,364,495,678	5,503,489,323
		-----	-----
Total equity		8,364,510,678	7,503,504,323
		=====	=====

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Unaudited			
	Share capital HK\$	Reserve for fair value change of available-for-sale financial assets HK\$	Retained earnings HK\$	Total HK\$
Balance at 1 January 2017	2,000,000,000	15,000	5,503,489,323	7,503,504,323
Comprehensive income for the period	-	-	861,006,355	861,006,355
Balance at 30 June 2017	<u>2,000,000,000</u>	<u>15,000</u>	<u>6,364,495,678</u>	<u>8,364,510,678</u>
Balance at 1 January 2016	2,000,000,000	15,000	4,740,195,069	6,740,210,069
Comprehensive income for the period	-	-	182,601,780	182,601,780
Balance at 30 June 2016	<u>2,000,000,000</u>	<u>15,000</u>	<u>4,922,796,849</u>	<u>6,922,811,849</u>

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Unaudited Six months ended 30 June	
	2017 HK\$	2016 HK\$
Net cash outflow from operating activities	(1,319,885,652)	(875,068,777)
Net cash inflow from investing activities	366,247	43,049
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(1,319,519,405)	(875,025,728)
Cash and cash equivalents at 1 January	6,420,003,112	9,142,729,345
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	<u>5,100,483,707</u>	<u>8,267,703,617</u>
 Analysis of balance of cash and cash equivalents		
Bank and cash balance with original maturity within three months	<u>5,100,483,707</u>	<u>8,267,703,617</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1 Basis of preparation

The unaudited interim report of BOCI Asia Limited and its subsidiaries (“the Group”) is prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2 Accounting policies

The accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the Group’s consolidated financial statements for the year ended 31 December 2016 and should be read in conjunction with the Group’s consolidated financial statements for 2016.

3 Segment information

The operating business of BOC International Holdings Limited (“the BOCI Group”), the Group’s immediate holding company, are organized and managed separately according to the nature of the products and services provided, with each segment reporting a strategic business unit that offers different products. The Group’s operating business segment and structure follow that of the BOCI Group.

Business segments have been used as a primary reporting format and no geographical segment analysis is presented as most of the Group’s major business activities and assets are conducted in Hong Kong.

The main business segments of the Group are as follows:

Investment banking	<ul style="list-style-type: none">• Provides a wide range of securities origination services for issuer clients, including underwriting and placement of public and private equity, debt and related securities.• Advises clients on mergers, acquisitions and restructurings.
Brokerage & wealth management	<ul style="list-style-type: none">• Provides brokerage, and margin financing service to individual and institutional clients.
Private banking	<ul style="list-style-type: none">• Provides a range of services for high net-worth individual clients and corporate clients.
Fixed income & equity market	<ul style="list-style-type: none">• Facilitates client transactions and makes markets in securities, derivatives, currencies, commodities and other financial instruments to satisfy client demands.• Engages in principal and in proprietary trading activities.
Leveraged & structured finance	<ul style="list-style-type: none">• Provides structured financing and financial advisory services.
Treasury and others	<ul style="list-style-type: none">• Provides central treasury services on behalf of Group companies.

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

3 Segment information (Continued)

The Group's segment results for six months ended 30 June 2017 are as follows:

Unaudited

	Investments banking HK\$'000	Brokerage & wealth management HK\$'000	Private banking HK\$'000	Fixed income and equity market HK\$'000	Leveraged & structured finance HK\$'000	Treasury and others HK\$'000	Elimination HK\$'000	Total HK\$'000
<u>Six months ended 30 June 2017</u>								
Total income – external	105,370	1,545,935	172,839	101,424	37,775	21,510	-	1,984,853
Total income – inter-segment	-	-	10,673	-	-	21,912	(32,585)	-
Commission and clearing expense	(25)	(332,084)	(4,246)	(17)	(2)	(290)	-	(336,664)
Depreciation	-	(30)	-	-	-	-	-	(30)
Other operating expenses	(71,902)	(194,805)	(62,323)	(32,648)	(5,087)	12,903	-	(353,862)
Finance costs – external	-	(2,874)	(9,896)	-	-	(44,663)	-	(57,433)
Finance costs – inter-segment	-	-	(21,912)	-	-	(10,673)	32,585	-
Segment results	33,443	1,016,142	85,135	68,759	32,686	699	-	1,236,864
Unallocated cost	-	-	-	-	-	-	-	(256,963)
Operating profits	-	-	-	-	-	-	-	979,901
<u>Six months ended 30 June 2016</u>								
Total income – external	19,490	655,389	175,917	101,738	6,602	184,024	-	1,143,160
Total income – inter-segment	-	-	7,577	-	-	29,031	(36,608)	-
Commission and clearing expense	(4)	(272,699)	(5,650)	(6)	-	(197)	-	(278,556)
Depreciation	-	(160)	(10)	(3)	-	(4)	-	(177)
Other operating expenses	(80,749)	(196,950)	(67,932)	(27,382)	-	12,138	-	(360,875)
Finance costs – external	-	(2,321)	(7,325)	-	-	(59,774)	-	(69,420)
Finance costs – inter-segment	-	-	(29,031)	-	-	(7,577)	36,608	-
Segment results	(61,263)	183,259	73,546	74,347	6,602	157,641	-	434,132
Unallocated cost	-	-	-	-	-	-	-	(236,494)
Operating profits	-	-	-	-	-	-	-	197,638

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

4 Revenue and trading (loss)/gain, net

(a) Revenue

	Unaudited Six month ended 30 June	
	2017 HK\$	2016 HK\$
Brokerage commission	610,965,381	526,265,152
Underwriting and placement commission	140,133,594	124,787,454
Corporate finance and loan syndication fees	128,195,780	100,438,134
Interest income from bank deposits and loans to customers	373,015,771	321,243,203
Dividend income from listed equities held for trading	42,239,134	11,063,408
	<u>1,294,549,660</u>	<u>1,083,797,351</u>

(b) Trading gain/(loss), net

	2017 HK\$	2016 HK\$
Net realised/unrealised gain/(loss) on financial assets and financial liabilities		
- Equity securities	623,817,190	(337,894,211)
- Debt securities	78,685,094	93,602,925
- Derivative financial instruments	(125,141,517)	127,487,568
	<u>577,360,767</u>	<u>(116,803,718)</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

5 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (first half of 2016: 16.5%) on the estimated assessable profit for the first half of the years. The amount of taxation charged to the condensed consolidated income statement represents:

	Unaudited Six months ended 30 June	
	2017 HK\$	2016 HK\$
Current income tax:		
- Hong Kong profits tax	118,135,929	39,188,793
- Overseas taxation	629,702	-
Deferred income tax credit	128,540	(24,152,295)
	<u>118,894,171</u>	<u>15,036,498</u>

6 Plant and equipment

During the six months ended 30 June 2017, the Group did not spend (first half of 2016: Nil) on the acquisitions of plant and equipment.

7 Available-for-sale financial assets

	Unaudited At 30 June 2017 HK\$	Audited At 31 December 2016 HK\$
Non-current assets, at fair value		
- Club debentures, unlisted	355,000	355,000
	<u>355,000</u>	<u>355,000</u>

8 Financial assets at fair value through profit or loss

	Unaudited At 30 June 2017 HK\$	Audited At 31 December 2016 HK\$
Trading securities, at fair value		
- Equity securities, listed in Hong Kong	2,144,129,879	3,327,798,641
	<u>2,144,129,879</u>	<u>3,327,798,641</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

9 Held-to-maturity financial assets

	Unaudited At 30 June 2017 HK\$	Audited At 31 December 2016 HK\$
Hong Kong Exchange Fund Bills, unlisted	149,826,779	149,839,110
Analysed by type of issuers as follows:		
Sovereigns	149,826,779	149,839,110

10 Derivative financial instruments

The Group enters into the following equity and foreign exchange derivative financial instruments for trading and risk management purposes. The types of derivatives utilised by the Group are shown in the following table:

Derivatives	Description
Forwards and futures	These instruments are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter (OTC) market, whereas futures are standardised contracts transacted on regulated exchanges.
Options	Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded OTC or on a regulated exchange, and may be traded in the form of a security (warrant).
Swaps	These are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. Most swaps are traded OTC. The major types of swap transactions undertaken by the Group are interest rate swaps, credit default swaps and equity swaps.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

10 Derivative financial instruments (Continued)

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet dates and certain of them provide a basis for comparison with fair value instruments recognised in the condensed consolidated statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

	Notional amount HK\$'000	Unaudited At 30 June 2017	
		Assets HK\$	Liabilities HK\$
Exchange rate contracts	1,996,248	7,393,633	10,682,841
Equity contracts	15,414,363	247,566,301	569,150,195
Interest rate contracts	80,000	586,799	586,799
		255,546,733	580,419,835
	Notional amount HK\$'000	Audited At 31 December 2016	
		Assets HK\$	Liabilities HK\$
Exchange rate contracts	3,458,417	11,333,365	14,860,683
Equity contracts	10,550,311	155,911,169	222,390,795
Interest rate contracts	80,000	2,007,851	2,007,851
		169,252,385	239,259,329

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11 Loans and receivables

	Unaudited At 30 June 2017 HK\$	Audited At 31 December 2016 HK\$
Accounts receivable from dealing in securities	10,330,257,098	4,760,560,208
Loans to customers	14,218,412,434	13,791,237,834
Fees and commission receivable	102,747,606	110,034,459
Deposits, prepayments and other receivables	111,937,347	97,630,043
	<hr/>	<hr/>
Gross	24,763,354,485	18,759,462,544
Impairment allowance	(40,406,255)	(40,394,750)
	<hr/>	<hr/>
	<u>24,722,948,230</u>	<u>18,719,067,794</u>

Loans to customers, which include receivables from margin clients of approximately HK\$9,886 million (end of 2016: approximately HK\$9,287 million), were secured by listed securities and a cash deposit. The Group is permitted to sell or re-pledge such collateral.

The receivables have excluded the brokerage client monies maintained in the trust accounts with Hong Kong Futures Exchange Clearing Corporation Limited and the Stock Exchange Options Clearing House.

12 Cash and balances with banks

	Unaudited At 30 June 2017 HK\$	Audited At 31 December 2016 HK\$
Cash at bank and in hand	1,891,169,806	1,650,615,732
Short-term bank deposits and placements		
– with original maturity within three months	3,209,313,901	4,769,387,380
– with original maturity over three months	2,270,656,221	1,204,807,809
	<hr/>	<hr/>
	<u>7,371,139,928</u>	<u>7,624,810,921</u>

The Group maintains trust accounts with authorised institutions and other financial institutions as part of its normal business transactions. At 30 June 2017, trust accounts with authorised institutions and other financial institutions not otherwise dealt with in the condensed consolidated financial statements amounted to approximately HK\$37,618 million (end of 2016: HK\$32,604 million).

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

13 Amounts due from/to fellow subsidiaries

Amounts due from/to fellow subsidiaries are non-interest bearing with carrying balances approximating their fair value.

During the period, the Group has entered into securities borrowing and lending arrangements with a fellow subsidiary. Under securities borrowing and lending agreements, cash collateral was required for securities borrowed and lent respectively. No interest was charged on the collateral deposits received and placed.

As at 30 June 2017, the Group has borrowed equity securities with fair value of HK\$27,100,880 (end of 2016: HK\$129,402,379) from a fellow subsidiary and placed a cash collateral of HK\$23,131,108 (end of 2016: HK\$160,317,332) and lent equity securities with market value of HK\$13,555,224 (end of 2016: HK\$2,543,988,269) to a fellow subsidiary and received a cash collateral of HK\$18,362,179 (end of 2016: HK\$2,545,383,679).

14 Amounts due from/to the immediate holding company/a related company/subordinated loans from the immediate holding company

Amounts due to the immediate holding company for daily administrative activities are unsecured, interest free and repayable upon demand.

Amounts due from/ to the immediate holding company for cash management and general funding purpose are unsecured and bear prevailing market interest rate and repayable within 1 year.

Amounts due from/ to a related company are unsecured, interest-free and repayable upon demand with carrying balances approximating their fair value.

Subordinated loans were borrowed from the immediate holding company of HK\$2,500,000,000 (end of 2016: HK\$2,500,000,000), which are unsecured and bear interest at commercial interest rates. The loans were approved by the Hong Kong Securities and Futures Commission as subordinated loans for exclusion from ranking liabilities in accordance with section 53(2) of the Hong Kong Securities and Futures (Financial Resources) Rules in the computation of regulatory liquid capital.

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

15 Accounts and other payables

	Unaudited At 30 June 2017 HK\$	Audited At 31 December 2016 HK\$
Accounts payable from dealing in securities	10,119,921,195	4,935,141,725
Accounts payable from securities trading	160,790	3,307,998
Discretionary bonus payable	290,749,618	290,749,618
Others payables and accrued expenses	118,014,588	242,891,419
	<u>10,528,846,191</u>	<u>5,472,090,760</u>

The carrying amounts of accounts payable approximate their fair value. All accounts payables are non-interest bearing.

Accounts payable represent amounts due to brokerage clients, brokers and clearing houses, and are due within one month. Accounts payable to clients exclude those payables placed in trust accounts with authorized institutions, Hong Kong Futures Exchange Corporation Limited and Stock Exchange Options Clearing House.

16 Deposits from customers

Majority of the deposits from customers are time, call and notice deposits and maturing within three months.

17 Financial liabilities at fair value through profit or loss

	Unaudited At 30 June 2017 HK\$	Audited At 31 December 2016 HK\$
Trading securities, at fair value		
- Equity securities, listed in Hong Kong	<u>97,159,235</u>	<u>60,265,161</u>

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

18 Share capital

	Unaudited At 30 June 2017 HK\$	Audited At 31 December 2016 HK\$
Issued and fully paid: 200,000 (2016: 200,000) ordinary shares	2,000,000,000	2,000,000,000

19 Contingent liabilities and commitments

Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	Unaudited At 30 June 2017 HK\$	Audited At 31 December 2016 HK\$
Land and buildings:		
Less than one year	47,305,350	52,186,398
Between one and five years	25,923,030	69,204,285
	<u>73,228,380</u>	<u>121,390,683</u>

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20 Material related-party transactions

Related parties are those parties that have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties can be individuals or other entities.

During the period, save as disclosed in the above notes, the Group entered into various transactions with related parties. These transactions were conducted on normal commercial terms.

Summary of material transactions entered into during the ordinary course of business with fellow subsidiaries and associates in BOCI Group and other subsidiaries of Bank of China Limited are as follows:

	Unaudited Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Condensed consolidated income statement items:		
Interest income from bank deposits & others	49,596	55,912
Brokerage commission	230,951	201,215
Corporate finance and loan syndication fees	28,066	80,867
Other handling income	177	56,585
Underwriting and placement commission	11,151	78,205
Management fee income	37,444	52,436
Interest expense from loans and other borrowings	(44,559)	(57,839)
Commission expenses arising from brokerage activities	(89,601)	(69,366)
Management fee expense	(256,963)	(236,494)
Operating lease rental in respect of leased premises	(29,796)	(28,970)
	<u> </u>	<u> </u>