

Report of the Directors and Audited Financial Statements

BOCI ASIA LIMITED
中銀國際亞洲有限公司

31 December 2013

BOCI ASIA LIMITED
中銀國際亞洲有限公司

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BOCI ASIA LIMITED
中銀國際亞洲有限公司

REPORT OF THE DIRECTORS

The directors of BOCI Asia Limited (the “Company”) and its subsidiaries (together, the “Group”) have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2013.

Principal activities

The Company is licensed for dealing in securities and advising on corporate finance under the Hong Kong Securities and Futures Ordinance. Its principal activities are the provision of corporate finance services, sales and trading of securities and other financial instruments.

The principal activities of the subsidiaries are set out in note 16 to the consolidated financial statements.

Results and appropriations

The results of the Group for the year are set out in consolidated income statement on page 6.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2013 (2012: Nil).

Share capital and reserves

Movements in share capital and reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 12, note 29 and note 30 to the consolidated financial statements respectively.

Plant and equipment

Details of the movements in plant and equipment of the Group and of the Company are set out in note 14 to the consolidated financial statements.

Directors

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

Cao Yuanzheng	
Tse Yung Hoi	(resigned on 1 January 2013)
Wong Andrew Chung Lap	(resigned on 15 January 2013)
Leung Yiu Kei	
Li Kit Man Eric	(appointed on 1 January 2013 and resigned on 20 February 2013)
Chen Xiaolu	(appointed on 1 January 2013)
Wang Jun	(appointed on 20 February 2013)
Lu Ying	(appointed on 20 February 2013)
Chan Wing Chiu	(resigned on 20 March 2013)
Du Jinsong	(appointed on 20 March 2013)
Bian Fang	(appointed on 5 March 2014)
Lee Kin Man	(appointed on 5 March 2014)

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

REPORT OF THE DIRECTORS

Donations

Charitable donations made by the Group during the financial year amounted to HK\$60,000 (2012: Nil).

Directors' interests

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

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Management contracts

The Company has an agreement with its immediate holding company (BOC International Holdings Limited) and its fellow subsidiary (BOCI Leveraged & Structured Finance Limited) and its subsidiary (BOCI Securities Limited) under which the immediate holding company, its fellow subsidiary and its subsidiary provide administration and support services to the Company in return for a fee which is agreed and reviewed on an annual basis. This agreement can be terminated by either party giving not less than one month's written notice.

The Company has an agreement with its subsidiaries, BOCI Research Limited and BOCI Securities Limited, under which the subsidiaries provide research and advisory services to the Company in return for a fee, which is agreed and reviewed on an annual basis. This agreement can be terminated by either party giving not less than one month's written notice.

The Company has an agreement with its subsidiary, BOCI Securities Limited, under which the subsidiary provides settlement services in return for a fixed fee on transaction basis. This agreement can be terminated by either party giving not less than one month's written notice.

The Company has an intra-group arrangement agreement with its immediate holding company under which the Company transfers its payment obligations or indebtedness liabilities to the immediate holding company. The immediate holding company is entitled to set off payments, sums and/or liabilities owed by it to any subsidiaries against any payments, sums and/or liabilities owed to it by any subsidiaries.

BOCI ASIA LIMITED
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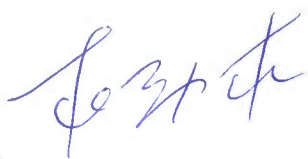
REPORT OF THE DIRECTORS (CONTINUED)

Auditors

During the year, PricewaterhouseCoopers retired as auditor of the Group upon expiration of its terms of office and Ernst & Young was appointed by the directors as the new auditor.

The consolidated financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



Director
Hong Kong

30 APR 2014



Ernst & Young
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Central, Hong Kong

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INDEPENDENT AUDITORS' REPORT To the shareholders of BOCI Asia Limited

中銀國際亞洲有限公司

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of BOCI Asia Limited (the "Company") and its subsidiaries (collectively the "Group") set out on pages 6 to 86, which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the directors also have a responsibility to ensure that the consolidated financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our 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 and with reference to Practice Note 820 "The Audit of Licensed Corporations and Associated Entities of Intermediaries" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, and whether the consolidated financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated 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 consolidated financial statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the shareholders of BOCI Asia Limited

中銀國際亞洲有限公司

(Incorporated in Hong Kong with limited liability)

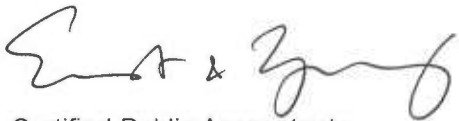
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

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

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

A handwritten signature in black ink, appearing to be 'Ernst & Young'.

Certified Public Accountants
Hong Kong

30 APR 2014

BOCI ASIA LIMITED
 中銀國際亞洲有限公司

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

	Notes	2013 HK\$	2012 HK\$
Revenue	5	2,510,099,203	2,066,786,513
Trading gain, net	5	396,420,597	281,535,619
Other income	6	220,001,809	214,871,627
Total income		<u>3,126,521,609</u>	<u>2,563,193,759</u>
Commission and clearing expenses		(592,991,372)	(462,692,231)
Staff costs	7	(722,053,158)	(574,666,198)
Other operating expenses		(768,900,527)	(677,743,507)
		<u>(2,083,945,057)</u>	<u>(1,715,101,936)</u>
Finance costs	10	<u>(167,641,090)</u>	<u>(175,899,389)</u>
Profit before taxation	9	874,935,462	672,192,434
Income tax expense	11	(127,023,960)	(75,603,182)
Profit after taxation for the year		<u>747,911,502</u>	<u>596,589,252</u>
Attributable to: Equity holders of the Company		<u>747,911,502</u>	<u>596,589,252</u>

The accompanying notes form an integral part of these consolidated financial statements.

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 HK\$	2012 HK\$
Profit after taxation for the year		747,911,502	596,589,252
Other comprehensive income:			
Release to consolidated income statement upon disposal of available-for-sale financial assets, net of tax	18	-	(480,000)
Total comprehensive income for the year		<u>747,911,502</u>	<u>596,109,252</u>
Attributable to:			
Equity holders of the Company		<u>747,911,502</u>	<u>596,109,252</u>

The accompanying notes form an integral part of these consolidated financial statements.

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 HK\$	2012 HK\$
NON-CURRENT ASSETS			
Plant and equipment	14	4,302,820	7,612,047
Intangible assets	15	49,715,218	50,005,899
Available-for-sale financial assets	18	355,000	355,000
Statutory deposits and other assets		14,449,575	16,854,908
Deferred income tax assets	17	970,510	37,526,355
Total non-current assets		<u>69,793,123</u>	<u>112,354,209</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	19	995,992,670	219,612,658
Held-to-maturity financial assets	20	240,039,978	-
Derivative financial instruments	21	104,115,581	49,530,905
Loans and receivables	22	27,330,683,952	21,176,028,873
Amounts due from the immediate holding company	25	1,904,146,027	1,888,682,018
Cash and balances with banks	23	8,460,290,387	5,923,976,984
Taxation recoverable		33,203,843	45,008,715
Total current assets		<u>39,068,472,438</u>	<u>29,302,840,153</u>
CURRENT LIABILITIES			
Bank loans and other borrowings – unsecured	33	1,500,095,570	481,093,981
Subordinated loans from the immediate holding company	25	2,285,000,000	2,285,000,000
Amounts due to the immediate holding company	25	9,075,128,782	5,902,733,484
Amounts due to fellow subsidiaries	24	260,902,371	77,588,288
Accounts and other payables	26	9,711,154,058	9,326,832,197
Deposits from customers	27	10,276,833,647	6,842,268,482
Derivative financial instruments	21	174,990,983	110,003,413
Financial liabilities at fair value through profit or loss	28	791,540,114	153,164,177
Taxation payable		55,842,114	5,704,684
Total current liabilities		<u>34,131,487,639</u>	<u>25,184,388,706</u>
NET CURRENT ASSETS		<u>4,936,984,799</u>	<u>4,118,451,447</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>5,006,777,922</u>	<u>4,230,805,656</u>

BOCI ASIA LIMITED
 中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2013

	Notes	2013 HK\$	2012 HK\$
TOTAL ASSETS LESS CURRENT LIABILITIES		5,006,777,922	4,230,805,656
NON-CURRENT LIABILITIES			
Deferred income tax liabilities	17	764,184	120,185
Accounts and other payables	26	62,216,963	34,800,198
Total non-current liabilities		62,981,147	34,920,383
Net assets		4,943,796,775	4,195,885,273
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	2,000,000,000	2,000,000,000
Reserve for fair value changes of available-for-sale financial assets		15,000	15,000
Retained earnings		2,943,781,775	2,195,870,273
Total equity		4,943,796,775	4,195,885,273



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 Director



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 Director

The accompanying notes form an integral part of these consolidated financial statements.

BOCI ASIA LIMITED
 中銀國際亞洲有限公司

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 HK\$	2012 HK\$
NON-CURRENT ASSETS			
Investment in subsidiaries	16	1,722,792,046	1,722,792,046
Plant and equipment	14	256,789	499,205
Deferred income tax assets	17	-	36,889,461
Total non-current assets		<u>1,723,048,835</u>	<u>1,760,180,712</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	19	995,157,455	218,921,804
Derivative financial instruments	21	45,174,263	5,268,450
Loans and receivables	22	873,252,617	241,389,157
Amounts due from the immediate holding company	25	683,146,027	903,682,018
Amounts due from a subsidiary	24	-	3,862,963
Cash and balances with banks	23	811,019,933	857,841,708
Taxation recoverable		32,869,880	32,822,214
Total current assets		<u>3,440,620,175</u>	<u>2,263,788,314</u>
CURRENT LIABILITIES			
Subordinated loans from the immediate holding company	25	385,000,000	385,000,000
Amounts due to the immediate holding company	25	487,600,696	468,119,702
Amounts due to fellow subsidiaries	24	251,686,997	74,696,585
Accounts and other payables	26	154,760,739	114,908,281
Derivative financial instruments	21	116,774,733	47,328,995
Financial liabilities at fair value through profit or loss	28	791,540,114	153,164,177
Total current liabilities		<u>2,187,363,279</u>	<u>1,243,217,740</u>
NET CURRENT ASSETS		<u>1,253,256,896</u>	<u>1,020,570,574</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,976,305,731</u>	<u>2,780,751,286</u>

BOCI ASIA LIMITED
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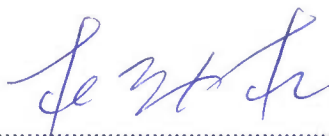
STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2013

	Notes	2013 HK\$	2012 HK\$
TOTAL ASSETS LESS CURRENT LIABILITIES		2,976,305,731	2,780,751,286
NON-CURRENT LIABILITIES			
Deferred income tax liabilities	17	746,061	-
Accounts and other payables	26	21,236,000	13,738,166
Total non-current liabilities		21,982,061	13,738,166
Net assets		2,954,323,670	2,767,013,120
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	2,000,000,000	2,000,000,000
Retained earnings	30	954,323,670	767,013,120
Total equity		2,954,323,670	2,767,013,120



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 Director



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 Director

The accompanying notes form an integral part of these consolidated financial statements.

BOCI ASIA LIMITED
 中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Note	Attributable to equity holders of the Company			Total HK\$
		Share capital HK\$	Reserve for fair value changes of available-for-sale financial assets HK\$	Retained earnings HK\$	
Balance at 1 January 2012		2,000,000,000	495,000	1,599,281,021	3,599,776,021
Comprehensive income					
Profit after taxation for the year		-	-	596,589,252	596,589,252
Other comprehensive income					
Fair value gains of available-for-sale financial assets, net of tax		-	(480,000)	-	(480,000)
Total comprehensive income		-	(480,000)	596,589,252	596,109,252
Balance at 31 December 2012		2,000,000,000	15,000	2,195,870,273	4,195,885,273
Balance at 1 January 2013		2,000,000,000	15,000	2,195,870,273	4,195,885,273
Profit after taxation and total comprehensive income for the year		-	-	747,911,502	747,911,502
Balance at 31 December 2013		2,000,000,000	15,000	2,943,781,775	4,943,796,775

The accompanying notes form an integral part of these consolidated financial statements.

BOCI ASIA LIMITED
 中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 HK\$	2012 HK\$
Cash flow from operating activities			
Net cash inflow/(outflow) from operating activities	31	2,544,849,359	(7,306,659,092)
		-----	-----
Investing activities			
Purchase of plant and equipment	14	(71,300)	(243,800)
Proceeds from sale and redemption of available-for-sale financial assets		-	900,000
		-----	-----
Net cash (outflow)/inflow from investing activities		(71,300)	656,200
		-----	-----
Increase/(decrease) in cash and cash equivalents		2,544,778,059	(7,306,002,892)
Cash and cash equivalents at 1 January		5,901,568,894	13,207,571,786
		-----	-----
Cash and cash equivalents at 31 December		8,446,346,953	5,901,568,894
		=====	=====
Analysis of balance of cash and cash equivalents			
Cash at banks and in hand with original maturity within three months	23	1,088,768,230	1,643,199,849
Short-term bank deposits with original maturity within three months	23	7,130,741,057	4,059,037,685
Placements with banks with original maturity within three months	23	226,837,666	199,331,360
		-----	-----
		8,446,346,953	5,901,568,894
		=====	=====

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

1. GENERAL INFORMATION

BOCI Asia Limited (the "Company") is a limited liability company incorporated in Hong Kong. The address of its registered office is 26/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

The consolidated financial statements of the Group for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group provides a broad range of investment banking services for a diverse group of domestic and international companies, financial institutions, government agencies and individuals through its subsidiaries and affiliates in Hong Kong. The Group engages in the provision of banking services, underwriting and financial advisory, sales and trading of securities and other financial instruments.

These consolidated financial statements are presented in nearest Hong Kong dollars (HK\$), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of BOCI Asia Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 34.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation (continued)

(a) **Standards, amendment and interpretations effective in 2013 and relevant to the Group's operations**

- Amendment to HKAS 1, 'Presentation of Financial Statements' effective for the accounting period beginning on or after 1 July 2012. The amendments to HKAS 1 (Revised) require companies preparing financial statements in accordance with HKFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. This amendment affects the presentation of the consolidated financial statements but does not affect the results and operation of the Group.
- Amendment to HKFRS 7 'Financial instruments: Disclosures – Offsetting financial assets and financial liabilities', effective from 1 January 2013: The amendments require new disclosures to include information that enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment does not result in any financial impact but results in additional disclosure in the consolidated financial statements. Please refer to note 3.2.3 for the new disclosure.
- HKFRS 10, 'Consolidated Financial Statements'. HKFRS 10 builds on existing principles by identifying the concept of control as the determining factor when considering whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. It also replaces all of the guidance on control and consolidation stipulated in HKAS 27 (Revised), "Consolidated and Separate Financial Statements", and HK(SIC)-Int 12, "Consolidation – Special Purpose Entities". The remainder of HKAS 27 (Revised) is renamed as HKAS 27 (2011), "Separate Financial Statements" as a standard dealing solely with separate financial statements without changing the existing guidance for separate financial statements. The Group has adopted the accounting standard and there is no significant impact on the Group's consolidated financial statements.
- HKFRS 13 'Fair value measurement', the new standard which was issued in June 2011 replaces the fair value measurement guidance contained in individual HKFRSs by providing a revised definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied when its use is already required or permitted by other standards within HKFRSs. It also requires extensive disclosures which allow users of financial statements to assess the methods and inputs used by the entities when developing the fair value measurements. The Group has adopted the accounting standard and there is no significant impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

(a) Standards, amendment and interpretations effective in 2013 and relevant to the Group's operations (continued)

There are some other new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 January 2013. However, they do not have significant impact on the Group's consolidated financial statements and have therefore not been analysed in detail.

(b) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published but are not effective for the financial year beginning 1 January 2013, and the Group has not early adopted them:

- Amendments to HKAS 32, 'Financial instruments: Presentation', the amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of "currently has a legally enforceable right of set-off"; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The Group is considering the financial impact of the amendment.
- Amendments to HKAS 36, 'Recoverable Amount Disclosures for Non-Financial Assets'. The amendment aligns the disclosure requirements with its original intention. It also requires additional disclosure about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal. The amendment affects the presentation of the consolidated financial statements but does not affect the results and operation of the Group.
- HKFRS 9, 'Financial instruments', the first part of HKFRS 9 was issued in November 2009 and will replace those parts of HKAS 39 relating to the classification and measurement of financial assets. In November 2010, a further pronouncement was published to address financial liabilities and derecognition. In December 2013, the part related to hedge accounting is added. Key features are as follows:

(i) Classification and Measurement

Financial assets are required to be classified into one of the following measurement categories: (1) those to be measured subsequently at fair value or (2) those to be measured subsequently at amortised cost. Classification is to be made on transition, and subsequently on initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instruments.

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

(b) **Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group (continued)**

- HKFRS 9, 'Financial instruments' (continued)

A financial instrument is subsequently measured at amortised cost only if it is a debt instrument, and the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only unleveraged payments of principal and interest. All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than income statement. Once elected to be recognised through other comprehensive income, there will be no reclassification of fair value gains and losses to income statement. Dividends are to be presented in income statement as long as they represent a return on investment.

(ii) Financial Liabilities and Derecognition

Except for the two substantial changes described below, the classification and measurement requirements of financial liabilities have been basically carried forward with minimal amendments from HKAS 39. For the derecognition principles, they are consistent with that of HKAS 39.

The requirements related to the fair value option for financial liabilities were changed to address own credit risk. It requires the amount of change in fair value attributable to changes in the credit risk of the financial liabilities be presented in other comprehensive income. The remaining amount of the total gain or loss is included in income statement. If this requirement creates or enlarges an accounting mismatch in profit or loss, then the whole fair value change is presented in income statement. The determination of whether there will be a mismatch will need to be made at initial recognition of individual liabilities and will not be re-assessed. Amounts presented in other comprehensive income are not subsequently reclassified to income statement but may be transferred within equity. The accounting for own credit risk can be early adopted without applying the other HKFRS 9 requirements at the same time.

The standard eliminates the exception from fair value measurement contained in HKAS 39 for derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of preparation (continued)

(b) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group (continued)

- HKFRS 9, 'Financial instruments' (continued)

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Group is considering the financial impact of the standard and the timing of its application.

There are no other HKFRSs or HKFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to the end of the reporting periods.

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for by the Company at cost less impairment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

(a) Subsidiaries (continued)

In the Company's statement of financial position the investment in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional currency and the Company's and Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Plant and equipment

Plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Costs include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	5 years
Furniture, fixtures and equipment	3 - 10 years
Electronic equipment	3 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Intangible assets - goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is carried at cost less accumulated impairment loss and is tested annually for impairment. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investment in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the investee concerned in the period the dividend is declared, or if the carrying amount of the relevant investment in the Company's statement of financial position exceeds the carrying amount in the consolidated statement of financial position of the investee's net assets including goodwill.

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making.

A financial asset is typically designated as fair value through profit or loss at inception if it meets the following criteria:

- (i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;
- (ii) A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the financial assets and/or financial liabilities is provided internally to the management; or

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(a) Financial assets at fair value through profit or loss (continued)

- (iii) The designation relates to financial instruments containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial instruments.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. These are classified as non-current assets. Loans and receivables are included in accounts and other receivables in the consolidated statement of financial position.

(c) Held-to-maturity investments financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(d) Available-for-sale investments financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of financial position. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement when the Group's right to receive payments is established.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in equity, until the financial asset is disposed of or impaired at which time the gain or loss accumulated in equity is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences resulting from change in the amortised cost are recognised in income statement, and other change in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in other comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active or the securities are unlisted, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

(a) Assets carried at amortised cost

A provision for impairment of loans and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within other operating expenses. When a loan or receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

(b) Assets classified as available-for-sale

The Group assesses at each end of reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement – is removed from and recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value. Fair value represents quoted prices if active market exists. When no active market exists, fair value is estimated by valuation techniques that are commonly used by market participants or dealer quotes.

(a) Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

(a) Financial liabilities at fair value through profit or loss (continued)

A financial liability is typically designated as fair value through profit or loss at inception if it meets the following criteria:

- (i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;
- (ii) A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the financial assets and/or financial liabilities is provided internally to the management; or
- (iii) The designation relates to financial instruments containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial instruments.

Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the consolidated income statement.

(b) Other financial liabilities

Other financial liabilities are carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated income statement over the period of the other financial liabilities using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised immediately in the consolidated income statement.

Certain foreign exchange derivatives embedded in currency-linked deposits are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract (i.e. the underlying deposits) and the host contract is carried at amortised cost. These embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting financial instruments

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period. Employee entitlements to sick leave and maternity leave or paternity leave are not recognised until the time of leave.

(b) Bonus plans

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

The Group recognises a liability and an expense for bonuses, with reference to the performance of the Group. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. Liabilities for bonus plans that are expected to be settled within twelve months are measured at the amounts expected to be paid when they are settled.

Bonus payments that are not due wholly within twelve months after the end of the year in which the employees render the related services are included as other long-term employee benefits. The long-term employee benefits are measured at the present value of the expected payments which also reflects the possibility that some employees may leave without receiving the bonus.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

(c) Pension obligations

The Group offers a mandatory provident fund scheme and a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Group.

The Group's contributions to the mandatory provident fund scheme and the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

Income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the consolidated income statement together with the deferred gain or loss.

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

Dividend distribution

Dividends recognised in the consolidated financial statements represent interim dividend paid and final dividend for the year declared and approved by the shareholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Revenue comprises (i) brokerage commission, (ii) underwriting and placement commission, (iii) corporate finance and loan syndication fees, (iv) dividend income from financial assets held for trading, and (v) interest income from bank deposits and loans to customers.

Brokerage commission is recognised on a trade-date basis.

Underwriting and placement commission is recognised in accordance with the terms of the underlying agreements and mandates.

Corporate finance and loan syndication fees are recognised when services are rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

Fiduciary activities

Trust accounts maintained by the Group to hold clients' monies are treated as the off-balance sheet items and disclosed in notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities borrowing and lending

Securities may be lent under an agreement to return them by the borrower. Such securities are retained on the consolidated statement of financial position when substantially all the risks and rewards of ownership remain with the Group, and the counterparty liability is included separately on the consolidated statement of financial position when cash collateral is received.

Similarly, where the Group borrows securities under an agreement to return them to the lender but does not acquire the risks and rewards of ownership, the cash consideration paid is treated as a collateral placed to the lender, as an accounts receivable in the consolidated statement of financial position.

Securities borrowed are not recognised in the consolidated financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as financial liabilities at fair value through profit or loss and any subsequent gain or loss included in trading gain/(loss), net.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee ("EC") of the Group that makes key and strategic decision.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group 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 Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
 - (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).

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3. FINANCIAL RISK MANAGEMENT

Financial risk management

The activities of the Group exposed it to a variety of financial risks: market risk (e.g. foreign exchange risk, interest rate risk and equity risk), credit risk and liquidity risk.

The Company is a wholly owned subsidiary of BOC International Holdings Limited (collectively refer to "BOCI Group" in this section). BOCI Group's risk management organization and policies extend to cover also the Group as there is no separate risk management organization and policies for the Group. The risk management policy in BOCI Group applies to the Group as well.

The Group overall risk management programme focuses on the unpredictability of financial markets and seeks to recognise potential adverse effects on the financial performance of BOCI Group and the Group.

Risk management organisation

The Group's risk management organisation seeks to maximize returns while maintaining a strong and prudent risk management by promoting transparency and accuracy in its risk assessment and management processes. The Group, leverages on the risk management organisation of its immediate holding company, consists of the following main components:

Board level

The Board of Directors ("Board") of the immediate holding company is responsible for setting the fundamental strategic goals and risk vision of the Group. The Board of Directors appoints the Risk Management Committee ("RMC") and the Audit Committee ("AC"), which assist the Board in overseeing the Group's risk management functions.

RMC is responsible for assisting the Board of Directors in fulfilling their oversight responsibilities by providing guidance regarding the risk governance and the development of acceptable risk profile. RMC approves new business proposal and conducts regular review of major risk exposures and the approval of risk limits to ensure that the Group's risk-taking activities are consistent with its business strategy, capital structure, and risk tolerance.

AC is responsible for assisting the Board of Directors in fulfilling their oversight responsibilities by monitoring the entire risk management process. Additionally, it is responsible for ensuring the independence of the internal and external auditors.

Management level

The EC is composed of the Chief Executive Officer, Deputy Chief Executive Officer, Chief Operating Officer, Chief Risk Officer and heads of major divisions. It operates on a partnership model to provide integrated executive leadership. Moreover, it is responsible for the appointment and operation of the Risk Control Committee ("RCC") and the Commitment Committee ("CC").

The RCC and the CC derive their decision-making authority from RMC and the Executive Committee. They meet regularly and consist of the Group's senior management, business heads and heads of the control and support units.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

Management level (continued)

The RCC is responsible for overseeing the risk management process of the Group and is responsible for:

- Managing exposures to market risk, credit risk, operational risk, financial and liquidity risk, legal risk, reputation and compliance risks;
- Evaluating and approving all risk management policies, and monitoring their implementation in accordance to the principles and policies established by the Board and the RMC, and under the guidance of the EC;
- Evaluating and approving internal risk limits and delegations;
- Supervising and coordinating risk management activities, reviewing the completeness and effectiveness of risk management infrastructures, and facilitating the building of risk culture;
- Monitoring overall risk exposure and organising investigations to any risk event that considers material;
- Evaluating and approving new product and new business proposals in accordance to the policies and authorities delegated by the Board;
- Evaluating and approving significant transactions; and
- Undertaking any other duties assigned by the RMC of the Board or the EC.

The RCC is chaired by the Chief Risk Officer and is comprised of senior management of the major functional areas.

The CC is composed of senior management representing the business, compliance and support units. It is responsible for overseeing the Group's underwriting, distribution and financial advisory business activities.

Risk control functions

The segregation of duties and the integrity of operating systems within the Group are two basic features of the Group's practice. Control and support units such as risk management, finance and treasury, legal and compliance, human resources, operations and information technology are independent of the business reporting lines. These units contribute to the Group's risk management system through their complementary reporting and control functions. The Risk Management Division ("RMD") evaluates and monitors the market and credit risk exposure on regular basis. The RMD reports any risk issues and risk analysis on business proposals to RCC, RMC and the Board. The Finance & Treasury Division ("FTD") evaluates and monitors the liquidity, interest rate and foreign exchange risk of non-trading book.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk

The Group takes on exposure to market risks, which is the risk that the market value or fair value of a financial instrument will fluctuate because of changes in market parameters. Market risks arise from open positions in interest rate, currency and equity products.

The Group's market risk mainly arises from its proprietary trading business, which comprises equity derivatives and fixed income trading units, and is regularly monitored by RMD (hereafter collectively refer to as "trading book" and refer to 3.1.1, 3.1.2, 3.1.3 and 3.1.4 for details on risk monitoring). The trading book in the Group mainly represents the financial positions classified as financial assets at fair value through profit or loss in the consolidated statement of financial position.

The remaining market risk of the Group arises from non-trading activities (hereafter collectively refer to as "non-trading book") and is managed by FTD. Non-trading book market risk generally arises from investment in available-for-sale debt securities held for liquidity purposes as well as investments in available-for-sale debt securities are restricted to high quality securities and subject to daily mark-to-market and monitoring. As of the end of the reporting periods, the Group's exposure to the non-trading book is insignificant to the its operations.

3.1.1 Value at risk and stress test

BOCI Group adopts the Value at Risk ("VaR") approach to derive quantitative measures for trading book market risks under normal market conditions. The Board sets VaR limits on both equity derivatives and fixed income units that may be undertaken. BOCI Group monitors VaR separately for equity derivatives unit and fixed income unit and each on a group basis, therefore no separate VaR is prepared. BOCI Group's exposure to non-trading book is not considered to be significant and no VAR is prepared. Further, the VaR is prepared in BOCI Group as a whole and no separate VaR is prepared for the financial position in the Group.

VaR is an estimate of the maximum potential loss in a defined period under defined confidence level in normal market conditions. Diversification effects within and across portfolios are taken into account either explicitly through the use of analytical formulae with pre-determined correlations or implicitly through the use of historical simulations. BOCI Group calculates VaR using a 99% confidence level and a holding period of 1 day. However, the use of this approach does not prevent losses outside these limits in the event of more significant market movement.

BOCI Group performs back testing on a regular basis to assess the predictive power of the VaR calculations. Back testing involves comparing actual daily profit or loss with VaR estimates. BOCI Group will review the VaR model if the back testing does not show a satisfactory result.

Stress testing is used as a supplement to BOCI Group's VaR analysis. The Board sets stress limits on both equity derivatives and fixed income desks that may be undertaken. Potential future stress loss is assessed using a number of hypothetical extreme market scenarios include the stress scenarios of different risk parameters such as equity level, volatilities, interest rate and credit spread. Stress scenarios are regularly reviewed to reflect a more updated and relevant market conditions and company business operations.

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31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.1.2 Equity price risk

The value of the equity and derivative portfolio held by the Group is mainly subject to change in market volatility and share price of the underlying equity securities.

The table below shows the impact on the profit before taxation of the Group for hypothetical changes in underlying prices and volatilities. No correlation is taken into consideration in presenting the below analysis.

31 December 2013 HK\$'000	Change in volatility		
Change in equity price	10%	0%	-10%
10%	(25,876)	21,487	68,851
-10%	(155,665)	(108,301)	(60,937)

31 December 2012 HK\$'000	Change in volatility		
Change in equity price	10%	0%	-10%
10%	(42,198)	(27,560)	(12,923)
-10%	(15,149)	(512)	14,126

The Group does not have non-trading book exposure to equity price risk as at the end of the reporting periods.

3.1.3 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 interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in interest rates. The Group takes on exposure on both fair value and cash flow interest rate risks.

Interest rate risk from trading book is monitored by RMD by using VaR tools on daily basis. For non-trading book interest rate risk, the Board sets limits on the level of mismatch of interest rate repricing, duration gap and stress test that may be undertaken, which is monitored on a regular basis by FTD.

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3. FINANCIAL RISK MANAGEMENT (continued)

3.1.3 Interest rate risk (Continued)

The following table shows the expected repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of reporting period.

	Less than 1 month HK\$'000	Between 1-3 months HK\$'000	Between 3-12 months HK\$'000	Over 1 year HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
At 31 December 2013						
Statutory deposits and other assets	-	-	-	-	14,450	14,450
Available-for-sale financial assets	-	-	-	-	355	355
Held-to-maturity financial assets	240,040	-	-	-	-	240,040
Financial assets at fair value through profit or loss	-	-	-	-	995,993	995,993
Derivative financial instruments	-	-	-	-	104,116	104,116
Amounts due from immediate holding company	1,844,146	30,000	30,000	-	-	1,904,146
Accounts and other receivables	1,335,631	-	-	-	8,163,408	9,499,039
Loans to customers	17,738,581	82,481	10,582	-	-	17,831,644
Cash and balances with banks	7,662,778	102,050	136,197	-	559,265	8,460,290
Others	-	-	-	-	88,192	88,192
Total assets	28,821,176	214,531	176,779	-	9,925,779	39,138,265
Bank loans and other borrowings – unsecured	(1,500,096)	-	-	-	-	(1,500,096)
Subordinated loans from immediate holding company	(2,285,000)	-	-	-	-	(2,285,000)
Amounts due to immediate holding company	(6,406,427)	(759,305)	(1,399,796)	-	(509,601)	(9,075,129)
Amounts due to fellow subsidiaries	-	-	-	-	(260,902)	(260,902)
Accounts and other payables	-	-	-	-	(9,773,371)	(9,773,371)
Deposits from customers	(9,738,124)	(389,029)	(149,681)	-	-	(10,276,834)
Derivative financial instruments	-	-	-	-	(174,991)	(174,991)
Financial liabilities at fair value through profit or loss	-	-	-	-	(791,540)	(791,540)
Others	-	-	-	-	(56,606)	(56,606)
Total liabilities	(19,929,647)	(1,148,334)	(1,549,477)	-	(11,567,011)	(34,194,469)
Total interest repricing gap	8,891,529	(933,803)	(1,372,698)	-		

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31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.1.3 Interest rate risk (Continued)

	Less than 1 month HK\$'000	Between 1-3 months HK\$'000	Between 3-12 months HK\$'000	Over 1 year HK\$'000	Non-interest bearing HK\$'000	Total HK\$'000
At 31 December 2012						
Statutory deposits and other assets	-	-	-	-	16,855	16,855
Available-for-sale financial assets	-	-	-	-	355	355
Financial assets at fair value through profit or loss	-	-	-	-	219,613	219,613
Derivative financial instruments	-	-	-	-	49,531	49,531
Amounts due from immediate holding company	1,888,682	-	-	-	-	1,888,682
Accounts and other receivables	1,361,757	-	-	-	7,328,187	8,689,944
Loans to customers	12,463,569	15,838	6,678	-	-	12,486,085
Cash and balances with banks	4,536,237	518,867	3,535	6,779	858,559	5,923,977
Others	-	-	-	-	140,152	140,152
Total assets	20,250,245	534,705	10,213	6,779	8,613,252	29,415,194
Bank loans and other borrowings – unsecured	(481,094)	-	-	-	-	(481,094)
Subordinated loans from immediate holding company	(2,285,000)	-	-	-	-	(2,285,000)
Amounts due to immediate holding company	(4,116,570)	(532,545)	(493,787)	-	(759,831)	(5,902,733)
Amounts due to fellow subsidiaries	-	-	-	-	(77,588)	(77,588)
Accounts and other payables	-	-	-	-	(9,361,632)	(9,361,632)
Deposits from customers	(6,167,736)	(653,109)	(21,423)	-	-	(6,842,268)
Derivative financial instruments	-	-	-	-	(110,003)	(110,003)
Financial liabilities at fair value through profit or loss	-	-	-	-	(153,164)	(153,164)
Others	-	-	-	-	(5,827)	(5,827)
Total liabilities	(13,050,400)	(1,185,654)	(515,210)	-	(10,468,045)	(25,219,309)
Total interest repricing gap	7,199,845	(650,949)	(504,997)	6,779		

As at 31 December 2013, if general market interest rates had been 100 basis point higher or lower with other variables held constant, profit before taxation for the year would have been approximately HK\$72 million (2012: HK\$62 million) higher/lower, mainly as a result of higher/lower net interest income earned on floating rate bank balances, loans to customers, subordinated loan from immediate holding company, and deposits from customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.1.4 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency rates fluctuations. The foreign exchange risk of the trading book is managed in the Group either by using foreign exchange spots or other derivative transactions. It is controlled under the risk management framework, including VaR and stress limits.

For non-trading book, the Board set limits on individual and aggregate open positions of various currencies. Stress loss limits of non-trading book are also set. The foreign exchange risk of non-trading book is monitored by FTD on daily basis.

As at 31 December 2013, the Group did not have significant open foreign currency positions, except for USD and CNY. The USD net long open position amounted to approximately HK\$150.5 million (2012: net short position of HK\$40.6 million). The CNY net long open position amounted to approximately HK\$30.0 million (2012: net long position of HK\$60.5 million).

USD and CNY denominated assets mainly consist of short-term deposits, loans and receivables and amounts due from immediate holding company, while USD and CNY denominated liabilities include accounts and other payables, deposits from customers and amounts due to the immediate holding company and fellow subsidiaries.

As HKD is pegged to USD, the Group does not expose to significant foreign exchange risk on USD. Shall CNY appreciates/depreciates against HKD by 5% (2012: 5%), the profit before taxation would increase/decrease by HK\$1,499,000 (2012: HK\$3,026,000).

3.2 Credit risk

Credit risk represents the loss that the Group would suffer if a client or counterparty fails to meet its contractual obligations. Credit exposures arise principally in loans and receivables, debt securities and derivative financial instruments. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The credit risk management and control are centralised in RMD.

3.2.1 Loans and receivables

The Group assesses credit risk of loans to corporate and individual clients and to financial institutions by performing credit assessment.

The credit risk management system of the Group comprises of pre-trade and post-trade credit control functions.

Regarding the pre-trade credit control functions, the Group has policies and procedures in place to ensure that credits are granted to clients with appropriate creditworthiness. The Group has its own in-house assessment methodologies for evaluating the creditworthiness of its counterparties. The Group credit approval process involves a detailed assessment of the counterparty's creditworthiness and also the risks related to the specific type of credit facility applied for. Credit limits are set up to cap the maximum credit exposures that the Group intends to assume over specified periods. The Group's credit policy and procedure also sets out the procedures for the approval of exceptional cases when the Group may assume exposures beyond the set limits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Loans and receivables (continued)

Exposure to credit risk is managed in part by obtaining collateral from the counterparties. The Group has maintained relationships with various financial institutions and other counterparties, and has credit limits in place for these counterparties.

Post-trade credit control encompasses exposure and collateral monitoring and reporting. Collaterals covering the credit risk exposure in case of default are subject to mark-to-market and monitoring on a daily basis (refer to 3.2.4 for details).

In particular, credit risk from customer securities dealing receivables under securities brokerage business is normally controlled through delivery-against-payment settlement and custody arrangement.

3.2.2 Debt securities and derivatives

Credit risk is inherent in debt securities and derivatives.

The Group assesses credit risk of derivative counterparties using external credit ratings and internal credit assessment. The Group controls the credit exposures by imposing potential market exposure limits. At any one time, the amount subject to credit risk includes (i) the current fair value of instruments that are favourable to the Group (i.e., assets where their fair values are positive) and (ii) the potential exposures of each counterparty from market movements. The credit risk exposure is monitored on a daily basis and collateral is obtained to mitigate the credit risk depending on credit assessment of the counterparty.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate settlement risk arising from the Group's market transactions on any single day.

Credit risk management of trading book debt securities is mainly on portfolio basis. Issuer concentration limit and country concentration limit are set. Debt securities in the trading book are monitored under the risk management framework, including VaR and stress limits.

As at the end of the reporting periods, all available-for-sale and held-to-maturity financial assets are unrated debt securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Netting arrangement and offsetting financial assets and financial liabilities

The following financial assets and financial liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

At 31 December 2013

	Gross amounts of recognised financial assets HK\$'000	Gross amounts of financial liabilities set off in the statement of financial position HK\$'000	Net amounts of financial assets presented in the statement of financial position HK\$'000	Related amounts not set off in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
				HK\$'000	HK\$'000	HK\$'000
Financial assets						
Amounts due from a fellow subsidiary	240,074	(240,074)	-	-	-	-
Loans and receivables	12,924,590	(4,939,130)	7,985,460	(3,277,328)	(185,133)	4,522,999
Derivative financial instruments	55,713	-	55,713	(9,758)	-	45,955
Financial liabilities						
Amounts due from a fellow subsidiary	(490,632)	240,074	(250,558)	-	-	(250,558)
Accounts and other payables	(11,526,710)	4,939,130	(6,587,580)	3,277,328	185,133	(3,125,119)
Derivative financial instruments	(53,999)	-	(53,999)	9,758	8,187	(36,054)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Netting arrangement and offsetting financial assets and financial liabilities (continued)

At 31 December 2012

	Gross amounts of recognised financial assets HK\$'000	Gross amounts of financial liabilities set off in the statement of financial position HK\$'000	Net amounts of financial assets presented in the statement of financial position HK\$'000	Related amounts not set off in the statement of financial position		
				Financial instruments HK\$'000	Cash collateral received HK\$'000	Net amount HK\$'000
Financial assets						
Amounts due to a fellow subsidiary	146,692	(146,692)	-	-	-	-
Loans and receivables	12,142,045	(4,147,524)	7,994,521	(3,221,495)	(172,078)	4,600,948
Derivative financial instruments	39,608	-	39,608	(8,841)	-	30,767
Financial liabilities						
Amounts due to a fellow subsidiary	(220,857)	146,692	(74,165)	-	-	(74,165)
Accounts and other payables	(11,969,392)	4,147,524	(7,821,868)	3,221,495	172,078	(4,428,295)
Derivative financial instruments	(39,061)	-	(39,061)	8,841	-	(30,220)

The Group further manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of assets and liabilities in the financial statements as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar arrangement will have the option to settle all such amounts on a net basis in the event of default of the other party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.4 Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral.

As part of the credit approval process, the RMD is responsible for defining and assessing the acceptability of collateral that is offered. The recovery rates of its credit exposures are determined based on the debt structure of a debtor and its assessment of the collateral based upon such factors as the liquidity of the collateral (which reflects the ability to unwind a position), the price volatility of the collateral, the suitability of the collateral as a hedge to the Group's exposure and the legal ability to apply such collateral.

Collateral held as security for financial assets is determined by the nature of the instrument. Generally, loans are secured by various forms of collateral including listed stocks, properties, debt securities, and other credit enhancements. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

For derivative transactions, generally the Group will normally require non-investment grade financial institutions and non-financial institutions to collateralise potential market exposure. Among other factors, the approval will be based upon the liquidity of the collateral (which reflects the ability to unwind a position as necessary), the price volatility of the collateral, the suitability of the collateral as a hedge to the exposure and the legal ability to apply such collateral.

Collateral monitoring is a crucial part of the credit risk measurement process. For margin financing, the collateral for covering the credit risk exposure are subject to mark-to-market and monitoring on a daily basis. A margin call to margin client would be made if there is an excess in margin loan limit or insufficient margin value to cover his/her credit risk exposure.

For loans to customers (margin loans), the collateral for covering the credit risk exposure in case of default are subject to mark-to-market and monitoring on a daily basis. A margin call to margin client would be made if there is an excess in margin loan limit or insufficient margin value to cover his/her risk credit exposure.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Maximum exposure to credit risk before collateral held or other credit enhancement

As at the end of the reporting periods, the maximum exposure to credit risk for each category of financial assets is the carrying amount stated in the consolidated financial position.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loans and receivables, debt securities, derivatives and cash and bank balances based on the following:

- Margin loans are fully backed by collateral. The Group generally accepts collateral in the form of cash, investment grade securities, liquid bonds, liquid stocks, and principal protected structured notes. No margin loans were considered to be impaired. All margin loans were individually fully collateralised.
- Term loans to individuals and corporate are fully backed by various types of collaterals, including listed stocks, properties, insurance policies and deposits, with fair value of collaterals greater than the outstanding loan amounts. No term loans were considered to be impaired as at the end of the reporting periods.
- Available-for-sale debt investments are mainly unlisted club debentures with insignificant credit risk exposure.
- Cash and balances with banks were deposited in reputable large commercial banks, mainly with Bank of China Limited and its related entities. The Group has policies in place to ensure that cash and balances with banks are either placed with high credit quality financial institutions or related companies (note 23) with minimum credit risk.
- The Group enters into derivative transactions with international stock exchanges, international financial institutions and financially strong corporate. The Group also enters into derivative transactions for private individuals. The Group reduces credit risk by obtaining collateral and arranging net settlement on certain derivative products. There was no impairment arising from derivative counterparties as at the end of the reporting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Maximum exposure to credit risk before collateral held or other credit enhancement (continued)

- There was no material impairment on accounts receivable for dealing in securities, options and futures contracts as at the end of the reporting periods. Among those unimpaired accounts and other receivables, approximately HK\$7,347 million (2012: HK\$8,483 million) is receivables from dealing in securities, which normally has a settlement term of two days. Except for the accounts receivable arising from dealing in securities from Bank of China Limited and its related entities as disclosed in note 33, there is no concentration of credit risk with respect to accounts receivable, as the Group has a large number of customers who are internationally dispersed. All the accounts receivable arising from Bank of China Limited and its related entities were fully settled within two business days after the end of the reporting periods.

3.2.6 Loans and receivables - Overdue and provision

Loans and receivables as at 31 December are summarised as follows:

	2013 HK\$'000	2012 HK\$'000
Loans to customers		
Neither past due nor impaired	17,796,946	12,337,829
Past due but not impaired	34,698	148,256
Gross	<u>17,831,644</u>	<u>12,486,085</u>
Accounts and other receivables		
Neither past due nor impaired	9,498,695	8,689,568
Past due but not impaired	345	376
Impaired	-	252
Gross	<u>9,499,040</u>	<u>8,690,196</u>
Impairment allowance	<u>-</u>	<u>(252)</u>
	<u>9,499,040</u>	<u>8,689,944</u>
Total	<u><u>27,330,684</u></u>	<u><u>21,176,029</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Loans and receivables - Overdue and provision (continued)

Gross amount of loans and receivables by class to customers that were past due but not impaired were as follows:

	2013		2012	
	Margin loans	HK\$'000 Account receivables from dealing in securities	Margin loans	HK\$'000 Account receivables from dealing in securities
Individual				
Past due 1 day	34,698	340	948	-
Past due 2 - 5 days	-	-	136,596	164
Past due 6 - 30 days	-	-	426	66
Past due over 30 days	-	5	-	6
Total	34,698	345	137,970	236
Fair value of collateral	70,318	4,399	185,553	11,848
Corporate				
Past due 1 day	-	-	-	-
Past due 2 - 5 days	-	-	10,286	-
Past due 6 - 30 days	-	-	-	105
Past due over 30 days	-	-	-	35
Total	-	-	10,286	140
Fair value of collateral	-	-	86,305	27,440

The movement of impairment allowance is disclosed in note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet the obligations of financial contracts that require funding for settlement and to maintain margin and collateral positions. It is crucial for the Group to maintain an appropriate level of liquidity, especially during periods of adverse conditions in particular for systematic risks associated with the financial markets, such as the financial tsunami happened in 2008. FTD is responsible for managing liquidity risk with the aim to:

- Ensure the availability of adequate funding to meet obligations as and when they fall due; and
- To cater for a liquidity crisis.

The nature of businesses of the Group is financial intermediaries and a major part of its assets in the financial statements arise from securities turnover and collateralised margin lending for securities clients. The maturity profile of the Group's asset portfolio is therefore short-term skewed with high turnover ratio in assets. Appropriate credit control is in place to ensure that brokerage transactions are settled on time. This reduces liquidity concern on the Group when acting in the capacity of an agent. To fulfill the funding needs, the Group relies on acquiring short-term liquidity in order to gain the flexibility in matching with funding movement. The short-term funding needs are growing at a high speed as the businesses are expanding rapidly. Nevertheless, with the strong liquidity support from Bank of China Limited, the growing short-term funding needs are met.

The Group measures and monitors their net funding requirements by constructing maturity profile that projects future cash flows arising from assets, liabilities and off balance sheet transactions.

3.3.1 Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Group under non-derivative financial liabilities, derivative financial assets/liabilities that will be settled on a net basis and derivative financial assets/liabilities that will be settled on gross basis by remaining contractual maturities at the end of reporting period.

The Group's derivatives that will be settled on a net basis include:

- Equity derivatives: listed and over-the-counter stock options, listed index options, equity swaps, exchange-traded futures; and
- Foreign exchange rate derivatives: non-deliverable forwards, options

The Group's derivatives that will be settled on a gross basis include:

- Interest rate derivatives: cross currency interest rate swaps; and
- Foreign exchange rate derivatives: currency forward

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.1 Undiscounted cash flows by contractual maturities (continued)

The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

At 31 December 2013	On demand and up to 1 month HK\$'000	1-3 months HK\$'000	3-12 Months HK\$'000	1-5 years HK\$'000	Total HK\$'000
Non-derivative cash flow					
Liabilities					
Bank loans and other borrowings – unsecured	1,500,621	-	-	-	1,500,621
Subordinated loans from immediate holding company	2,285,968	-	-	-	2,285,968
Amounts due to immediate holding company	6,925,869	764,279	1,409,005	-	9,099,153
Amounts due to fellow subsidiaries	260,902	-	-	-	260,902
Accounts and other payables	9,414,609	7,868	288,677	62,217	9,773,371
Deposits from customers	9,740,193	389,577	152,293	-	10,282,063
Financial liabilities at fair value through profit or loss	791,540	-	-	-	791,540
	<u>30,919,702</u>	<u>1,161,724</u>	<u>1,849,975</u>	<u>62,217</u>	<u>33,993,618</u>
Cash flow from derivative financial assets and liabilities (note)					
Settled on net basis	<u>12,638</u>	<u>(3,591)</u>	<u>(8,450)</u>	<u>-</u>	<u>596</u>
Settled on gross basis					
Total inflow	<u>4,118,388</u>	<u>56,726</u>	<u>131,154</u>	<u>-</u>	<u>4,306,268</u>
Total (outflow)	<u>(4,117,895)</u>	<u>(56,553)</u>	<u>(131,110)</u>	<u>-</u>	<u>(4,305,558)</u>
	<u>493</u>	<u>173</u>	<u>44</u>	<u>-</u>	<u>710</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.1 Undiscounted cash flows by contractual maturities (continued)

At 31 December 2012	On demand and up to 1 month HK\$'000	1-3 Months HK\$'000	3-12 Months HK\$'000	1-5 years HK\$'000	Total HK\$'000
Non-derivative cash flow					
Liabilities					
Bank loans and other borrowings – unsecured	481,104	-	-	-	481,104
Subordinated loans from immediate holding company	2,286,231	-	-	-	2,286,231
Amounts due to immediate holding company	4,562,359	533,781	813,612	-	5,909,752
Amounts due to fellow subsidiaries	77,588	-	-	-	77,588
Accounts and other payables	9,055,450	6,753	264,629	34,800	9,361,632
Deposits from customers	6,168,497	653,796	21,476	-	6,843,769
Financial liabilities at fair value through profit or loss	153,164	-	-	-	153,164
	<u>22,784,393</u>	<u>1,194,330</u>	<u>1,099,717</u>	<u>34,800</u>	<u>25,113,240</u>
Cash flow from derivative financial assets and liabilities (note)					
Settled on net basis	<u>(9,510)</u>	<u>(2,767)</u>	<u>(6,173)</u>	<u>-</u>	<u>(18,450)</u>
Settled on gross basis					
Total inflow	5,346,821	93,018	56,809	-	5,496,648
Total (outflow)	(5,364,985)	(92,998)	(56,795)	-	(5,514,778)
	<u>(18,164)</u>	<u>20</u>	<u>14</u>	<u>-</u>	<u>(18,130)</u>

The majority of the Group's financial assets are highly liquid. However, the Group did not manage its liquidity risk by matching its financial assets against the financial liabilities.

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3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value using valuation technique

If a financial instrument has an active market, the quoted market price in the active market is used to determine its fair value.

If the market for a financial instrument is not active, valuation techniques are used to establish its fair value. These valuation techniques are commonly used by market participants and demonstrated to provide reliable estimates of prices obtained in actual market transactions.

Inputs to these valuation techniques are generally market observable, of which:

- The fair value of debt securities is obtained from market quotes.
- The fair value of foreign exchange spots, forwards and swaps is measured using spot or forward exchange rates.
- The fair value of equity options is established using option valuation models (e.g. the Black-Scholes model).

For financial instruments measured at fair value using a valuation technique, the total amount of the change in fair value estimated using a valuation technique that was recognised in consolidated income statement during the year is approximately a gain of HK\$10,670,000 (2012: gain of HK\$6,887,000).

(b) Financial instruments not measured at fair value

For financial instruments that are not measured in fair value, including held-to-maturity financial assets, loans and receivables, cash and balances with banks, amounts due to the immediate holding company, subordinated loan from the immediate holding company, amounts due to fellow subsidiaries, accounts and other payables, and deposits from customers, their carrying amounts approximate the fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

(c) Fair value hierarchy (continued)

HKFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like bond futures.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of debt securities without active secondary markets, the OTC derivative contracts and issued structured notes. The sources of input parameters like HIBOR or LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes debt or equity instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

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31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

(c) Fair value hierarchy

At 31 December 2013	Level 1 HK\$'000	Level 2 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss			
- Equity securities	995,993	-	995,993
Derivatives financial instruments	-	104,116	104,116
Available-for-sale financial assets			
- Club debentures	-	355	355
Total	<u>995,993</u>	<u>104,471</u>	<u>1,100,464</u>
Financial liabilities at fair value through profit or loss			
- Equity securities	791,540	-	791,540
Derivatives financial instruments	72,656	102,335	174,991
Total	<u>864,196</u>	<u>102,335</u>	<u>966,531</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

(c) Fair value hierarchy

At 31 December 2012	Level 1 HK\$'000	Level 2 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss			
- Equity securities	219,613	-	219,613
Derivatives financial instruments	-	49,531	49,531
Available-for-sale financial assets			
- Club debentures	-	355	355
Total	<u>219,613</u>	<u>49,886</u>	<u>269,499</u>
Financial liabilities at fair value through profit or loss			
- Equity securities	153,164	-	153,164
Derivatives financial instruments	27,272	82,731	110,003
Total	<u>180,436</u>	<u>82,731</u>	<u>263,167</u>

During the years ended 31 December 2013 and 2012, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

3.5 Capital management

The Group's objectives when managing capital, which is a broader concept than the "equity" which include all the Group's equity of HK\$4,943,796,775 (2012: HK\$4,195,885,273) on the face of consolidated statement of financial position and the subordinated loans from the immediate holding company of HK\$2,285,000,000 (2012: HK\$2,285,000,000), are:

- To comply with the capital requirements under the Banking (Capital) Rules of the Banking Ordinance for the subsidiary carrying out banking business;
- To comply with the requirements of Securities and Futures Ordinance for the Company and its subsidiaries in carrying various types of activities;
- To support the Group's stability and growth;
- To optimise risk adjusted return to the shareholder; and
- To maintain a strong capital base to support the development of its business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Capital management (continued)

Capital adequacy of the banking subsidiary of the Group are monitored daily by the Group's management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority ("HKMA") on a quarterly basis.

The HKMA requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum of 12%.

In addition, the Company and certain subsidiaries of the Group are also subject to statutory capital requirement issued by the Securities and Futures Commission ("SFC") ranging from HK\$100,000 to HK\$10,000,000.

During the years ended 31 December 2013 and 2012, the banking subsidiary complied with all externally imposed capital requirements by the HKMA. The subsidiaries regulated by the SFC complied with the statutory capital requirement.

4. SEGMENT INFORMATION

The operating business of BOC International Holdings Limited ("BOCI Group"), the Group's immediate holding company, are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. The Group's operating business segment and structure follows that of BOCI Group.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Executive Committee as its chief operating decision maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment income and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

4. SEGMENT INFORMATION (continued)

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.• Advices clients on mergers, acquisitions and restructurings. |
| Brokerage & wealth management | <ul style="list-style-type: none">• Provides brokerage, margin financing service, and private banking to individual and institutional 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. |
| Leverage & 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 |

No segment assets and segment liabilities are disclosed as no such information are presented to the EC, who is the chief operating decision maker.

Over 90% of the Group's revenue and profit are derived from its business activities in Hong Kong.

No individual customer, except for Bank of China Limited and its subsidiaries, contributed more than 10% of each individual segment income above. Please refer to note 33 for details of the related party transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION (continued)

The Group's segment results for the year ended 31 December 2013 and 2012 are as follows:

31 December 2013	Investment banking HK\$'000	Brokerage & wealth management HK\$'000	Fixed income & equity market HK\$'000	Leveraged & structured finance HK\$'000	Treasury and others HK\$'000	Elimination HK\$'000	Total HK\$'000
Total income - external	296,558	2,451,047	231,542	39,984	107,391	-	3,126,522
Total income – inter-segment	-	42,161	-	-	102,950	(145,111)	-
Commission and clearing expense	(724)	(591,420)	(142)	(111)	(594)	-	(592,991)
Depreciation	(207)	(2,965)	(152)	(36)	(20)	-	(3,380)
Other operating expenses	(231,060)	(624,989)	(146,819)	(11,523)	23,529	-	(990,862)
Finance costs - external	-	(57,856)	(8)	(2)	(109,776)	-	(167,642)
Finance costs – inter-segment	-	(103,405)	-	455	(42,161)	145,111	-
Segment results	64,567	1,112,573	84,421	28,767	81,319	-	1,371,647
Unallocated cost							(496,712)
Operating profits							874,935

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

4. SEGMENT INFORMATION (continued)

The Group's segment results for the year ended 31 December 2013 and 2012 are as follows:

31 December 2012	Investment banking HK\$'000	Brokerage & wealth management HK\$'000	Fixed income & equity market HK\$'000	Leveraged & structured finance HK\$'000	Treasury and others HK\$'000	Elimination HK\$'000	Total HK\$'000
Total income - external	246,971	1,981,250	156,873	22,691	155,408	-	2,563,193
Total income – inter-segment	-	108,191	-	-	60,496	(168,687)	-
Commission and clearing expense	(10)	(474,249)	(12)	(68)	11,647	-	(462,692)
Depreciation	(251)	(7,115)	(197)	(84)	(19)	-	(7,666)
Other operating expenses	(195,285)	(517,880)	(135,763)	(11,823)	40,770	-	(819,981)
Finance costs - external	-	(113,114)	(4)	(16)	(62,765)	-	(175,899)
Finance costs – inter-segment	-	(59,249)	-	(1,247)	(108,191)	168,687	-
Segment results	51,425	917,834	20,897	9,453	97,346	-	1,096,955
Unallocated cost							(424,763)
Operating profits							672,192

5. REVENUE AND TRADING GAIN, NET

(a) Revenue

	2013 HK\$	2012 HK\$
Brokerage commission	1,258,372,403	1,040,123,034
Underwriting and placement commission	498,068,933	335,167,101
Corporate finance and loan syndication fees	117,284,656	87,946,332
Interest income from bank deposits and loans to customers	609,383,173	555,561,400
Dividend income from listed equities held for trading	26,990,038	47,988,646
	<u>2,510,099,203</u>	<u>2,066,786,513</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. REVENUE AND TRADING GAIN, NET (continued)

(b) Trading gain, net

	2013 HK\$	2012 HK\$
Net realised/unrealised gain/(loss) on financial assets and financial liabilities (note)		
- Equity securities	(9,819,684)	(30,968,952)
- Debt securities	153,972,270	93,633,361
- Derivative financial instruments	252,268,011	218,871,210
	<u>396,420,597</u>	<u>281,535,619</u>

Note:

Net realised/unrealised gain/(loss) on financial assets and financial liabilities includes interest income and interest expenses arising from financial assets and financial liabilities at fair value through profit or loss.

All the net realised/unrealised gain/(loss) are arising from trading financial assets or financial liabilities. There was no net realised/unrealised gain/(loss) on financial assets and financial liabilities designated at fair value through profit or loss (2012: Nil).

The net realised/unrealised gain on financial assets and financial liabilities included:

	2013 HK\$	2012 HK\$
Trading gain from listed investments	313,526,718	176,123,329
Trading gain from unlisted investments	82,893,879	105,412,290
	<u>396,420,597</u>	<u>281,535,619</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. OTHER INCOME

	Note	2013 HK\$	2012 HK\$
Management fee income from related company	33	111,656,631	116,140,527
Handling and custodian fees		60,691,071	53,427,011
Foreign exchange gain, net		29,831,987	24,379,395
Interest income from			
– BOCI Group companies	33	11,260,643	11,133,082
– Held-to-maturity financial assets	33	39,978	-
– Others		3,901,532	3,826,719
Others		2,619,967	5,964,893
		<u>220,001,809</u>	<u>214,871,627</u>

7. STAFF COSTS

	2013 HK\$	2012 HK\$
Wages, salaries, other allowances and unutilised annual leave	365,587,345	327,224,290
Discretionary bonus and other long-term employee benefits	314,235,527	205,442,218
Pension costs – defined contribution plans	24,259,919	23,710,112
Staff medical, recruitment, training, welfare expenses and termination benefits	17,970,367	18,289,578
	<u>722,053,158</u>	<u>574,666,198</u>

Note:
 Staff costs include directors' remuneration (note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. DIRECTORS' REMUNERATION

The aggregate amounts of remuneration payable to directors of the Company during the year are as follows:

	2013 HK\$	2012 HK\$
Fees		
Other remuneration:		
Basic salaries, housing allowances, other allowances and benefits in kind	5,009,749	5,979,329
Contributions to pension schemes	492,781	392,214
Discretionary bonus		
- Short term employee benefits	4,546,667	714,098
- Other long-term employee benefits	1,653,333	259,672
	<u>11,702,530</u>	<u>7,345,313</u>

In addition to the directors' remuneration disclosed above, certain directors of the Company received remuneration from the immediate holding company and a fellow subsidiary, which totals HK\$21,472,534 (2012: HK\$18,098,888), part of which is in respect of their services to the Group, the immediate holding company and its fellow subsidiaries. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the Company's immediate holding company and the fellow subsidiaries.

During the year, there were no loans to directors and officers which are required to be disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance.

9. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Note	2013 HK\$	2012 HK\$
Operating lease rental in respect of leased premises		55,936,766	50,904,342
Depreciation	14	3,379,530	7,665,553
Management fee to related companies	33	496,712,212	424,762,880
Auditors' remuneration		780,340	839,700
Write-off of plant and equipment	14	997	-
Impairment of intangible assets	15	290,730	-
Impairment of fees and commission receivable	22	500,000	-
		<u>500,000</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10. FINANCE COSTS

	2013 HK\$	2012 HK\$
Interest expenses:		
- deposits from customers and securities brokerage client	58,653,268	110,213,295
- bank loans and other borrowings (note 33)	108,987,822	65,686,094
	<u>167,641,090</u>	<u>175,899,389</u>

11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	Note	2013 HK\$	2012 HK\$
Current income tax:			
Hong Kong profits tax			
- Current year		85,946,416	59,035,122
- Over-provision in prior years		(57,926)	(1,274,040)
Overseas tax		3,935,626	-
Deferred income tax	17	37,199,844	17,842,100
		<u>127,023,960</u>	<u>75,603,182</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

	2013 HK\$	2012 HK\$
Profit before taxation	874,935,462	672,192,434
Tax calculated at 16.5% (2012: 16.5%)	144,364,351	110,911,752
Income not subject to tax	(25,844,106)	(35,976,089)
Expenses not deductible for tax purposes	3,274,815	1,777,112
Over provisions in prior years	(57,926)	(1,274,040)
PRC business tax during the year	3,935,626	-
Others	1,351,200	164,447
Income tax expense	<u>127,023,960</u>	<u>75,603,182</u>

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$187,310,550 (2012: HK\$148,178,467) (note 30).

13. DIVIDENDS

No dividend was declared or paid during the years (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. PLANT AND EQUIPMENT

The Group

	Leasehold improvements HK\$	Furniture, fixtures and equipment HK\$	Electronic equipment HK\$	Total HK\$
At 1 January 2012				
Cost	18,721,393	3,413,639	169,241,553	191,376,585
Accumulated depreciation	(10,518,249)	(1,927,264)	(163,897,272)	(176,342,785)
Net book amount	8,203,144	1,486,375	5,344,281	15,033,800
Year ended 31 December 2012				
Opening net book amount	8,203,144	1,486,375	5,344,281	15,033,800
Additions	50,000	182,700	11,100	243,800
Depreciation	(3,324,888)	(540,771)	(3,799,894)	(7,665,553)
Net book amount	4,928,256	1,128,304	1,555,487	7,612,047
At 31 December 2012				
Cost	18,771,393	3,596,339	168,793,497	191,161,229
Accumulated depreciation	(13,843,137)	(2,468,035)	(167,238,010)	(183,549,182)
Net book amount	4,928,256	1,128,304	1,555,487	7,612,047
Year ended 31 December 2013				
Opening net book amount	4,928,256	1,128,304	1,555,487	7,612,047
Additions	-	71,300	-	71,300
Disposal	(997)	-	-	(997)
Depreciation	(1,923,806)	(388,309)	(1,067,415)	(3,379,530)
Net book amount	3,003,453	811,295	488,072	4,302,820
At 31 December 2013				
Cost	18,219,380	3,611,339	156,986,292	178,817,011
Accumulated depreciation	(15,215,927)	(2,800,044)	(156,498,220)	(174,514,191)
Net book amount	3,003,453	811,295	488,072	4,302,820

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. PLANT AND EQUIPMENT (continued)

The Company

	Leasehold improvement HK\$	Furniture, fixtures and equipment HK\$	Electronic equipment HK\$	Total HK\$
At 1 January 2012				
Cost	623,389	978,426	2,449,058	4,050,873
Accumulated depreciation	(429,867)	(385,400)	(2,401,929)	(3,217,196)
Net book amount	<u>193,522</u>	<u>593,026</u>	<u>47,129</u>	<u>833,677</u>
Year ended 31 December 2012				
Opening net book amount	193,522	593,026	47,129	833,677
Depreciation	(123,592)	(178,803)	(32,077)	(334,472)
Closing net book amount	<u>69,930</u>	<u>414,223</u>	<u>15,052</u>	<u>499,205</u>
At 31 December 2012				
Cost	623,389	978,426	2,394,481	3,996,296
Accumulated depreciation	(553,459)	(564,203)	(2,379,429)	(3,497,091)
Net book amount	<u>69,930</u>	<u>414,223</u>	<u>15,052</u>	<u>499,205</u>
Year ended 31 December 2013				
Opening net book amount	69,930	414,223	15,052	499,205
Depreciation	(67,754)	(161,657)	(13,005)	(242,416)
Closing net book amount	<u>2,176</u>	<u>252,566</u>	<u>2,047</u>	<u>256,789</u>
At 31 December 2013				
Cost	623,389	978,426	1,867,507	3,469,322
Accumulated depreciation	(621,213)	(725,860)	(1,865,460)	(3,212,533)
Net book amount	<u>2,176</u>	<u>252,566</u>	<u>2,047</u>	<u>256,789</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. INTANGIBLE ASSETS

The Group

	Goodwill HK\$	Broking membership HK\$	Total HK\$
Carrying amount at 1 January 2012	49,715,218	291,319	50,006,537
Exchange difference	-	(638)	(638)
	<hr/>	<hr/>	<hr/>
Carrying amount as at 31 December 2012 and 1 January 2013	49,715,218	290,681	50,005,899
Exchange difference	-	49	49
Impairment and write-off during the year	-	(290,730)	(290,730)
	<hr/>	<hr/>	<hr/>
Carrying amount at 31 December 2013	<u>49,715,218</u>	<u>-</u>	<u>49,715,218</u>

The goodwill in the Group is mostly attributable to securities brokerage business, the cash-generating units ("CGU"). No impairment loss was noted in 2013 and 2012, as the CGU involved was highly profitable. In 2013, net profit of HK\$477,254,447 (2012: HK\$369,332,906) was generated by the securities brokerage business.

16. INVESTMENT IN SUBSIDIARIES

	2013 HK\$	2012 HK\$
Investment at cost:		
Unlisted shares	1,722,792,046	1,722,792,046
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

16. INVESTMENT IN SUBSIDIARIES (continued)

The following is a list of the subsidiaries at 31 December 2013:

<u>Name</u>	<u>Place of incorporation</u>	<u>Principal activities</u>	<u>Particulars of issued share capital</u>	<u>Interest held</u>
Bank of China International Limited 中銀國際有限公司	Hong Kong	Banking and related financing services	HK\$1,000,000,000	100% [#]
BOCI Research Limited 中銀國際研究有限公司	Hong Kong	Research	US\$130,000	100% [#]
BOCI Securities Limited 中銀國際證券有限公司	Hong Kong	Securities dealing and brokerage	HK\$406,000,000	100% [#]
BOCI Secretaries Limited 中銀國際秘書有限公司	Hong Kong	Nominees services	HK\$6,000	100%
Modenia Limited	Hong Kong	Nominees services	HK\$100	100%

[#] Shares held directly by the Company.

17. DEFERRED INCOME TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2012: 16.5%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

The Group	2013 HK\$	2012 HK\$
Deferred tax assets	970,510	36,889,461
Deferred tax liabilities	(764,184)	(120,185)

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31 December 2013

17. DEFERRED INCOME TAX (continued)

The Company

	2013 HK\$	2012 HK\$
Deferred tax (liabilities)/assets	<u>(746,061)</u>	<u>36,889,461</u>

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets	Note	Tax losses HK\$	Accelerated tax depreciation HK\$	Total HK\$
At 1 January 2012		55,552,303	-	55,552,303
Recognised in the consolidated income statement	11	<u>(18,662,842)</u>	<u>636,894</u>	<u>(18,025,948)</u>
At 31 December 2012 and 1 January 2013		36,889,461	636,894	37,526,355
Recognised in the consolidated income statement	11	<u>(36,889,461)</u>	<u>333,616</u>	<u>(36,555,845)</u>
At 31 December 2013		<u>-</u>	<u>970,510</u>	<u>970,510</u>
Deferred tax liabilities				Accelerated tax depreciation HK\$
At 1 January 2012				304,033
Recognised in the consolidated income statement	11			<u>(183,848)</u>
At 31 December 2012 and 1 January 2013				120,185
Recognised in the consolidated income statement	11			<u>643,999</u>
At 31 December 2013				<u>764,184</u>

All deferred tax assets due to tax losses are arising from the Company.

The Group and the Company has no significant unrecognised deferred tax position (2012: Nil).

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18. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group

	2013 HK\$	2012 HK\$
Non-current assets		
- Club debentures, unlisted at 1 January and at 31 December	355,000	355,000

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group

	2013 HK\$	2012 HK\$
Trading securities - at fair value		
- Equity securities, listed in Hong Kong	995,992,670	219,612,658
Market value of listed securities	995,992,670	219,612,658

The Company

	2013 HK\$	2012 HK\$
Trading securities - at fair value		
- Equity securities, listed in Hong Kong	995,157,455	218,921,804
Market value of listed securities	995,157,455	218,921,804

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. HELD-TO-MATURITY FINANCIAL ASSETS

The Group

	2013 HK\$	2012 HK\$
Certificates of Deposits, unlisted	240,039,978	-
Analysed by type of issuers as follows:		
Banks, unrated	240,039,978	-

The movement in held-to-maturity financial assets is summarised as follow:

The Group

	2013 HK\$	2012 HK\$
At 1 January	-	-
Addition	240,000,000	-
Accrued interest receivable	39,978	-
At 31 December	240,039,978	-

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21. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into 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. The major types of forward and futures transactions undertaken by the Group are index futures.
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 securities (warrants).
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 as follows: <ul style="list-style-type: none">• Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies or interest rates (for example, fixed rate for floating rate);• Credit default swaps are the most common form of credit derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following a credit event (as defined in the contract) with respect to a third party. Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity (as defined in the contract) and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is terminated; and• Equity swaps give the receiver exposure to the cash flows and economic benefits and risks of an underlying asset, without having to own the asset, in exchange for a series of payments, often based on a reference interest rate, e. g. LIBOR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters.

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 end of reporting periods and certain of them provide a basis for comparison with fair value instruments recognised in the 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.

The Group	Notional Amount HK\$'000	Assets HK\$	Liabilities HK\$
Derivatives – held for trading			
At 31 December 2013			
Exchange rate contracts	8,359,567	6,937,156	6,212,087
Equity contracts	4,328,296	97,178,425	168,778,896
		<u>104,115,581</u>	<u>174,990,983</u>
At 31 December 2012			
Exchange rate contracts	7,852,796	5,059,526	23,471,489
Equity contracts	3,549,296	44,471,379	86,531,924
		<u>49,530,905</u>	<u>110,003,413</u>
The Company			
Derivatives – held for trading			
At 31 December 2013			
Equity contracts	5,912,377	45,174,263	116,774,733
At 31 December 2012			
Equity contracts	1,398,793	5,268,450	47,328,995

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22. LOANS AND RECEIVABLES

The Group

	2013 HK\$	2012 HK\$
Accounts receivable from dealing in securities	8,702,859,695	8,482,834,201
Accounts receivable from securities trading	612,158,690	89,768,352
Fees and commission receivable	142,177,583	91,155,893
Deposits, prepayments and other receivables	41,843,916	26,437,734
Gross	<u>9,499,039,884</u>	<u>8,690,196,180</u>
Impairment allowance (Note 22)	-	(252,105)
	<u>9,499,039,884</u>	<u>8,689,944,075</u>
Loans to customers	17,831,644,068	12,486,084,798
Total	<u><u>27,330,683,952</u></u>	<u><u>21,176,028,873</u></u>

The Company

	2013 HK\$	2012 HK\$
Accounts receivable from securities trading	719,905,103	142,694,391
Fees and commission receivable	142,177,583	91,155,893
Deposits, prepayments and other receivables	11,169,931	7,790,978
Gross	<u>873,252,617</u>	<u>241,641,262</u>
Impairment allowance (Note 22)	-	(252,105)
Total	<u><u>873,252,617</u></u>	<u><u>241,389,157</u></u>

The carrying amounts of loans and receivables approximate their fair value.

As at 31 December 2013, the loans to customers, which included approximately HK\$12,659 million (2012: HK\$8,351 million) of receivables from margin clients, were secured by listed securities held as collateral of fair value of HK\$79,130 million (2012: HK\$67,306 million) and a cash deposit of HK\$524 million (2012: HK\$340 million). The Group is permitted to sell or re-pledge such collateral. As at 31 December 2012 and 2013, there were no collateral re-pledged.

Term loans to individuals and corporate are fully backed by various types of collaterals, including listed stocks, properties, insurance policies and deposits, with fair value of collaterals greater than the outstanding loan amounts.

The receivables had excluded the brokerage client monies maintained in the trust accounts with a clearing participant, Hong Kong Futures Exchange Clearing Corporation Limited and the Stock Exchange Options Clearing House of approximately HK\$82 million, HK\$130 million and HK\$204 million respectively as at 31 December 2013 (2012: HK\$188 million, HK\$104 million and HK\$129 million respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22. LOANS AND RECEIVABLES (continued)

As at the end of the reporting periods, there was no impairment allowance on loans to customers.

The movement of impairment allowance is summarised as follow:

The Group and the Company

	2013 HK\$	2012 HK\$
At 1 January	252,105	252,105
Charged to income statement (Note 9)	500,000	-
Uncollectible amounts written off	(752,105)	-
At 31 December	<u>-</u>	<u>252,105</u>

23. CASH AND BALANCES WITH BANKS

The Group

	2013 HK\$	2012 HK\$
Cash at banks and in hand	1,088,768,230	1,643,199,849
Short-term bank deposits		
– with original maturity within three months	7,130,741,057	4,059,037,685
– with original maturity over three months	13,943,434	22,408,090
Placements with banks		
– with original maturity within three months	226,837,666	199,331,360
	<u>8,460,290,387</u>	<u>5,923,976,984</u>

The Company

	2013 HK\$	2012 HK\$
Cash at banks and in hand	172,948,176	598,291,939
Short-term bank deposits		
– with original maturity within three months	638,071,757	259,549,769
	<u>811,019,933</u>	<u>857,841,708</u>

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23. CASH AND BALANCES WITH BANKS (continued)

The Group maintains trust accounts with authorized institutions and other financial institutions as part of its normal business transactions. At 31 December 2013, trust accounts with authorized institutions and other financial institutions not otherwise dealt with in the consolidated financial statements amounted to approximately HK\$18,185 million (2012: HK\$16,800 million).

24. AMOUNTS DUE FROM A SUBSIDIARY/TO FELLOW SUBSIDIARIES

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

During the year, the Company has entered into securities borrowing and lending arrangements with a fellow subsidiary in the normal course of business on a principal basis, in which it transfers and receives equity securities to and from the fellow subsidiary. The Company has determined that it continues to retain substantially all the risks and rewards of the securities lent and therefore has not derecognised such in the consolidated financial position.

Under securities borrowing and lending agreements, cash collateral was required and collected for securities borrowed and lent respectively. No interest was charged on the collateral deposits received and placed.

As at 31 December 2013, the Company lent equity securities, which are all classified as financial assets at fair value through profit or loss, with fair value of HK\$519,722,258 (2012: HK\$212,913,416) to the fellow subsidiary and received a cash collateral of HK\$490,632,310 (2012: HK\$220,856,994).

As at 31 December 2013, the Company has borrowed equity securities with fair value of HK\$295,377,509 (2012: HK\$203,025,945) from the fellow subsidiary and placed a cash collateral of HK\$240,073,945 (2012: HK\$146,692,250) to the fellow subsidiary. The Company shorted part of the borrowed equity securities which are all classified as financial liabilities at fair value through profit or loss in the consolidated financial position.

Further, a subsidiary of the Group also engages in securities borrowing and lending arrangements but in an agency capacity for its customers. The relevant securities are not recognised in the consolidated financial position.

Except for the cash collateral received and deposited under stock borrowing and lending transactions, all the amounts due from a subsidiary/to fellow subsidiaries of the Group are repayable upon demand and unsecured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/SUBORDINATED LOANS FROM IMMEDIATE HOLDING COMPANY

The Group and the Company entered several transactions with the immediate holding company with amounts and terms of the transactions as follows:

The Group

- As at 31 December 2013, an amount of HK\$1,904,146,027 (2012: HK\$1,888,682,018) was lent to the immediate holding company for cash management and general funding purpose, which is unsecured and bears prevailing market interest rate and repayable within a year.
- An amount of HK\$8,248,352,364 (2012: HK\$5,142,902,271) was borrowed from the immediate holding company by a subsidiary of the Group for cash management and general funding purpose, which is unsecured and bears prevailing market interest rate. Relevant balances with the immediate holding company would be due within a year after the end of the reporting periods. As at 31 December 2013, an amount of HK\$317,176,191 (2012: HK\$317,176,191) was borrowed from the immediate holding company by the Company for same purpose, which is unsecured, interest free and repayable within 1 year.
- An amount of HK\$509,600,227 (2012: HK\$442,655,022) was paid by the immediate holding company on behalf of the Group for daily administrative activities, which is unsecured, interest free and repayable upon demand.

The Company

- As at 31 December 2013, an amount of HK\$683,146,027 (2012: HK\$903,682,018) was lent to the immediate holding company for cash management and general funding purpose, which is unsecured and bears prevailing market interest rate and repayable within a month.
- As at 31 December 2013, an amount of HK\$4,381,092 (2012: Nil) was borrowed from the immediate holding company by the Company for cash management purpose, which is unsecured, bears market interest rate and repayable within 3 months. As at 31 December 2013, an amount of HK\$317,176,191 (2012: HK\$317,176,191) was borrowed from the immediate holding company by the Company for the same purpose, which is unsecured, interest free and repayable within 1 year.
- An amount of HK\$166,043,413 (2012: HK\$150,943,511) was paid by the immediate holding company on behalf of the Company for daily administrative activities, which are unsecured, interest free and repayable upon demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/SUBORDINATED LOANS FROM THE IMMEDIATE HOLDING COMPANY (continued)

The subordinated loans from immediate holding company were borrowed by:

A subsidiary of the Company

- (i) HK\$1,400 million (2012: HK\$1,400 million) drawn under a loan facility. Pursuant to the written consent from the Hong Kong Securities and Futures Commission dated 23 October 2013, the maturity date of such loan facility is extended from 24 October 2013 to 24 October 2015 with the remaining terms unchanged. The amount shall be repayable with one month notice.
- (ii) HK\$500 million (2012: HK\$500 million), drawn under a loan facility with no stated maturity. The amount should be repayable upon obtaining consent from the Hong Kong Securities and Futures Commissions.

Both the subordinated loans are unsecured, bear interest at 1-month HIBOR plus 50 basis points (2012: 1-month HIBOR plus 50 basis points).

The Company

- (i) HK\$385 million (2012: HK\$385 million) drawn under a loan facility. Pursuant to the written consent from the Hong Kong Securities and Futures Commission dated 31 December 2013, the maturity date of such loan facility is extended from 2 January 2014 to 2 January 2016 with the remaining terms unchanged. The amount shall be repayable with one month notice. The loan is unsecured, bear interest at 1-month HIBOR plus 200 basis points (2012: 1-month HIBOR plus 200 basis points).

The loans were approved and allowed 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.

26. ACCOUNTS AND OTHER PAYABLES

The Group

	2013 HK\$	2012 HK\$
Accounts payable from dealing in securities	9,131,996,895	8,653,648,588
Accounts payable from securities trading	219,103	2,668,304
Discretionary bonus payable	344,987,480	290,630,965
Others payables and accrued expenses	279,952,895	410,739,890
Amount due to an associate company of BOCI Group	16,214,648	3,944,648
	<u>9,773,371,021</u>	<u>9,361,632,395</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. ACCOUNTS AND OTHER PAYABLES (continued)

The Company

	2013 HK\$	2012 HK\$
Accounts payable from securities trading	2,228,010	96,559
Discretionary bonus payable	120,143,834	90,013,953
Other payables and accrued expenses	37,410,247	34,591,287
Amount due to an associate company of BOCI Group	16,214,648	3,944,648
	<u>175,996,739</u>	<u>128,646,447</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 Clearing Corporation Limited and Stock Exchange Options Clearing House and other financial institutions, which amounted to approximately HK\$18,601 million as at 31 December 2013 (2012: HK\$17,221 million).

27. DEPOSITS FROM CUSTOMERS

All the deposits from customers are time, call and notice deposits and maturing within 1 year. Deposits from related parties are set out in note 33(a)(viii).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group and the Company

	2013 HK\$	2012 HK\$
Trading securities – at fair value		
- Equity securities, listed in Hong Kong	791,540,114	153,164,177
	<u>791,540,114</u>	<u>153,164,177</u>

During the year, the Company has entered into securities borrowing and lending arrangements with a fellow subsidiary. The financial liabilities at fair value through profit or loss arose from the Company's short selling of borrowed equity securities (refer to note 24). Under securities borrowing and lending agreement, cash collateral was required and collected for securities borrowed and lent respectively.

No interest was charged on the collateral deposits received and placed. Refer to note 23 for details.

29. SHARE CAPITAL

	2013 HK\$	2012 HK\$
Authorised, issued and fully paid:		
200,000 ordinary shares of HK\$10,000 each	2,000,000,000	2,000,000,000
	<u>2,000,000,000</u>	<u>2,000,000,000</u>

30. RETAINED EARNINGS

The Company

	Note	2013 HK\$	2012 HK\$
Balance at 1 January		767,013,120	618,834,653
Profit for the year	12	187,310,550	148,178,467
At 31 December		<u>954,323,670</u>	<u>767,013,120</u>

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31. CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of profit before taxation to net cash inflow/(outflow) from operating activities:

	2013 HK\$	2012 HK\$
Profit before taxation	874,935,462	672,192,434
Interest income	(624,585,326)	(570,521,201)
Interest expense	167,641,090	175,899,389
Dividend income	(26,990,038)	(47,988,646)
Depreciation	3,379,530	7,665,553
Impairment of fees and commission receivable	500,000	-
Impairment of intangible assets	290,730	-
Write-off of plant and equipment	997	-
Release from equity upon disposal of available-for-sale financial assets	-	(480,000)
Exchange gain arising from revaluation of intangible assets denominated in other currencies	(49)	-
	<u>395,172,396</u>	<u>236,767,529</u>
Decrease/(increase) in statutory deposits and other assets	2,405,333	(6,996,464)
Increase in loans and receivables	(6,154,732,942)	(9,987,180,335)
(Increase)/decrease in derivative financial instruments (assets)	(54,584,676)	74,014,156
Increase in held-to-maturity financial assets	(240,039,978)	-
(Increase)/decrease in financial assets at fair value through profit or loss	(776,380,012)	256,262,084
Decrease in cash and balances with banks with original maturity over three months	8,464,656	285,037,222
Increase in bank loans and other borrowings – unsecured	1,019,001,589	15,188,762
Movement in balances with the immediate holding company	3,156,931,289	1,444,712,415
Movement in balances with fellow subsidiaries	183,314,083	(122,411,664)
Increase/(decrease) in derivative financial instruments (liabilities)	64,987,570	(40,436,455)
Increase in accounts and other payables	411,738,626	4,758,510,695
Increase/(decrease) in deposits from customers	3,428,791,422	(4,467,998,459)
Increase/(decrease) in financial liabilities at fair value through profit or loss	638,375,937	(84,441,223)
Dividend received	26,990,038	47,988,646
Interest received	624,163,189	566,005,954
Interest paid	(161,867,347)	(176,481,688)
Hong Kong and overseas tax paid	(27,881,814)	(105,200,267)
Net cash inflow/(outflow) from operating activities	<u><u>2,544,849,359</u></u>	<u><u>(7,306,659,092)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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32. CONTINGENT LIABILITIES AND COMMITMENTS

Commitments under operating leases

At 31 December, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2013 HK\$	2012 HK\$
Land and buildings:		
Less than one year	38,947,585	11,988,369
Between one and five years	50,273,596	1,481,235
	<u>89,221,181</u>	<u>13,469,604</u>
	2013 HK\$	2012 HK\$
Equipment:		
Less than one year	-	183,924
	<u>-</u>	<u>183,924</u>

As at 31 December 2013, the Group has a non-cancellable equity underwriting commitment of HK\$214,929,183 (2012: HK\$20,887,747) which expires within a month after the end of the reporting period.

33. RELATED-PARTY TRANSACTIONS

Other than related parties transactions disclosed elsewhere in the consolidated financial statements, the major transactions with related parties, which the Group entered into during the year are summarised as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. RELATED-PARTY TRANSACTIONS (continued)

- (a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and an associate of BOCI Group

<u>2013</u>	Note	BOCI Group HK\$'000	Bank of China Limited and its subsidiaries HK\$'000	Associates of BOCI Group HK\$'000
<u>Consolidated income statement</u>				
Interest income from bank deposits	i	-	86,204	-
Brokerage commission	ii	50,811	493,159	-
Underwriting and placement commission	iii	-	6,884	(12,270)
Management fee income	iv	111,657	-	-
Other income – interest income	i	11,261	40	-
Net realised / unrealised gain on trading securities and derivatives	x	(7,769)	20,541	-
Interest expense on loans and other borrowings	vii	(102,707)	(1,923)	-
Interest expense on customer deposits	viii	(1,017)	(792)	-
Commission expenses arising from brokerage activities	ii	(6,886)	(171,866)	(2,002)
Management fee expense	v	(496,712)	-	-
Operating lease rental in respect of leased premises	ix	-	(49,452)	-
Bank charges	xii	-	(6,098)	-
Staff medical, recruitment, training & welfare expenses	xi	-	(11,328)	-
		<u> </u>	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

33. RELATED-PARTY TRANSACTIONS (continued)

- (a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and an associate of BOCI Group (continued)

<u>2012</u>	Note	BOCI Group HK\$'000	Bank of China Limited and its subsidiaries HK\$'000	Associates of BOCI Group HK\$'000
<u>Consolidated income statement</u>				
Interest income from bank deposits	i	-	116,811	-
Brokerage commission	ii	32,810	407,906	-
Underwriting and placement commission	iii	-	4,322	(3,945)
Management fee income	iv	116,140	-	-
Other income – interest income	i	11,133	42	-
Net realised / unrealised gain on trading securities and derivatives	x	(23,947)	-	-
Interest expense on loans and other borrowings	vii	(64,021)	(1,651)	-
Interest expense on customer deposits	viii	(1,837)	(9)	-
Commission expenses arising from brokerage activities	ii	(7,992)	(127,561)	(1,738)
Management fee expense	v	(424,763)	-	-
Operating lease rental in respect of leased premises	ix	-	(44,683)	-
Bank charges	xii	-	(3,863)	-
Staff medical, recruitment, training & welfare expenses	xi	-	(5,992)	-
		=====	=====	=====

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

33. RELATED-PARTY TRANSACTIONS (Continued)

- (a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and an associate of BOCI Group (continued)

<u>2013</u>	Note	BOCI Group HK\$'000	Bank of China Limited and its subsidiaries HK\$'000	Associates of BOCI Group HK\$'000
<u>Consolidated statement of financial position</u>				
Bank balances and cash	i	-	6,597,619	-
Accounts receivable arising from dealing in securities	ii	290,870	2,837,139	114,967
Derivative financial instruments (assets)	vi	453	784	-
Held-to-maturity financial assets	xiv	-	240,040	-
		<u> </u>	<u> </u>	<u> </u>
Deposits from customers	viii	180,838	2,020	-
Bank loans and other borrowings	vii	-	1,500,096	-
Accounts payable arising from dealing in securities	ii	819,318	2,949,184	-
Amount due to an associate company of BOCI Group	iii	-	-	16,215
Derivative financial instruments (liabilities)	vi	197	713	-
		<u> </u>	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

33. RELATED-PARTY TRANSACTIONS (Continued)

- (a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and an associate of BOCI Group (continued)

<u>2012</u>	Note	BOCI Group HK\$'000	Bank of China Limited and its subsidiaries HK\$'000	Associates of BOCI Group HK\$'000
<u>Consolidated statement of financial position</u>				
Bank balances and cash	i	-	5,492,924	-
Accounts receivable arising from dealing in securities	ii	97,137	2,939,852	130,050
Derivative financial instruments (assets)	vi	20	1,081	-
		<u> </u>	<u> </u>	<u> </u>
Deposits from customers	viii	164,837	2,010	-
Bank loans and other borrowings	vii	-	481,094	-
Accounts payable arising from dealing in securities	ii	238,637	3,768,348	-
Amount due to an associate company of BOCI Group	iii	-	-	3,945
Derivative financial instruments (liabilities)	vi	64	19,804	-
		<u> </u>	<u> </u>	<u> </u>

- (i) Interest income from bank deposits and bank balances and interest income from the immediate holding company and fellow subsidiaries of BOCI Group

In the ordinary course of business, the Group placed its cash and short-term funds with Bank of China Limited and its related entities. These deposits were conducted at prices and terms that were no more favourable than those contracted with other third party customers.

The Group also received interest income from amount lent to BOCI Group companies for cash management purpose as disclosed in note 25.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

33. RELATED-PARTY TRANSACTIONS (Continued)

- (a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and an associate of BOCI Group (continued)

- (ii) Commission income and expense arising from brokerage activities

During the year, the Group earned brokerage commission from securities dealing of approximately HK\$50,811,000 and HK\$493,159,000 (2012: approximately HK\$32,810,000 and HK\$407,906,000) from fellow subsidiaries controlled by BOCI Group and Bank of China Limited and its related entities as a result of securities transactions executed in Hong Kong. In return, the Group paid approximately HK\$6,886,000 and HK\$171,866,000 (2012: approximately HK\$7,992,000 and HK\$127,561,000) as commission expenses.

As at 31 December 2013, the Group had a net payable of HK\$528,448,000 from fellow subsidiaries in BOC International Holdings Limited and net payable of HK\$112,045,000 from BOC Hong Kong (Holdings) Limited (2012: net payable of HK\$141,500,000 from fellow subsidiaries in BOC International Holdings Limited and net receivable of HK\$828,496,000 to BOC Hong Kong (Holdings) Limited) as a result of the above transactions executed.

- (iii) Underwriting and placement commission

In the ordinary course of business, the Group provided underwriting and placement services to customers and received underwriting and placement fee income. During the year, the Group earned HK\$6,884,000 from Bank of China Limited and its subsidiaries (2012: HK\$4,322,000). These commissions earned were executed at the relevant market rates at the time of the transactions. As at 31 December 2012 and 2013, there was no outstanding fee receivable from BOC Hong Kong (Holdings) Limited and its subsidiaries

An underwriting and placement activity was also jointly conducted by the Group and one of its associates. As at 31 December 2013, the Group has outstanding fee payable to the associate, amounted to HK\$16,215,000 (2012: receivable of HK\$3,945,000) for its services provided. Fee expense of HK\$12,270,000 (2012: fee income of HK\$3,945,000) was shared to the associate during the year.

- (iv) Management fee income

The Group has an agreement with BOCI Financial Products Limited, a fellow subsidiary in BOC International Holdings Limited, under which the Company provides management and administrative services in return for a fee which is agreed and reviewed on an annual basis. This agreement can be terminated by either party giving not less than one month's written notice.

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33. RELATED-PARTY TRANSACTIONS (Continued)

- (a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and an associate of BOCI Group (continued)

- (v) Management fee expense

The Group has an agreement with its immediate holding company (BOC International Holdings Limited) and its fellow subsidiaries (BOCI Leveraged & Structured Finance Limited and BOC International (Singapore) Pte. Ltd.) under which the immediate holding company and its fellow subsidiaries provide administration and support services to the Company in return for a fee which is agreed and reviewed on an annual basis. This agreement can be terminated by either party giving not less than one month's written notice.

- (vi) Derivative financial instruments assets/liabilities

In the ordinary course of business, the Group entered into equity contracts, exchange rate contracts and interest rate contracts with fellow subsidiaries of BOCI Group and other subsidiaries of Bank of China Limited. These transactions were executed at the relevant market rates at the time of the transactions.

- (vii) Bank loans and related interest expenses

In the ordinary course of business, the Group obtained loans from BOC International Holdings Limited and other subsidiaries of Bank of China Limited to finance its margin financing activities and daily operations. The above borrowings were entered at the relevant market rates at the time of the transactions. During the year, the Group paid an interest expense of HK\$102,707,000 and HK\$1,923,000 (2012: HK\$64,021,000 and HK\$1,651,000) for the bank loans obtained from BOC International Holdings Limited and other subsidiaries of Bank of China Limited respectively.

- (viii) Deposits from customers and interest expense on customer deposits

In the ordinary course of business, the Group accepted deposits from fellow subsidiaries in BOC International Holdings Limited and other subsidiaries of Bank of China Limited. As at 31 December 2013, the outstanding customer deposits amounted to HK\$180,838,000 and HK\$2,020,000 (2012: HK\$164,837,000 and HK\$2,010,000) and interest expenses of HK\$1,017,000 and HK\$792,000 (2012: HK\$1,837,000 and HK\$9,000) were paid during the year.

- (ix) Operating lease rental in respect of leased premises

In the ordinary course of business, the Group entered into an office lease agreement with a subsidiary of Bank of China (Hong Kong) Limited. The leases were executed at the relevant market rates at the time of the transactions. Significant portion of the operating lease commitment in relating to land and building as disclosed in note 32 are with that fellow subsidiary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

33. RELATED-PARTY TRANSACTIONS (Continued)

- (a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and an associate of BOCI Group (continued)

- (x) Net realised/ unrealised gain on trading securities

During the year, the Group has realised/ unrealised gain on trading securities with fellow subsidiaries in BOC International Holdings Limited in the ordinary course of business.

- (xi) Staff medical, recruitment, training & welfare expenses

The Group paid fees to fellow subsidiaries of Bank of China (Hong Kong) Limited for the insurance and training services provided to the Group.

- (xii) Bank Charges

In the ordinary course of business, the Group has incurred bank charges to Bank of China (Hong Kong) Limited and its related entities as a result of its daily operations.

- (xiii) Key management compensation

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, considering directors are key management which compensation was disclosed in note 8 to the consolidated financial statements.

- (xiv) Held-to-maturity financial assets

The Group purchased Certificate of Deposits issued by Bank of China Limited. These securities were purchased at prices and terms that were no more favourable than those contracted with other third party customers. At 31 December 2013, HK\$240 million (2012: Nil) of Certificate of Deposits were purchased from Bank of China Limited, and interest income of HK\$39,978 (2012: Nil) interest income was earned.

- (b) Transaction with BOC Poverty Relief and Education Charity Fund Limited

BOCI Group has established a charitable fund, named BOC Poverty Relief and Education Charity Fund Limited (the "Charity Fund"), in 2008 and registered with Inland Revenue Department of Hong Kong SAR Government.

During the year, the Group accepted deposits and paid interest expenses of HK\$3,716 (2012: HK\$2,000) to the Charity Fund. As at 31 December 2013, there is outstanding customer deposits amounting to HK\$2,038,330 (2012: HK\$4,247,000) placed by the Charity Fund.

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34. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group's consolidated financial statements and its financial result are influenced by accounting policies, assumptions, estimates, and management judgement which necessarily have to be made in the course of preparation of the consolidated financial statements.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements 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.

Accounting policies and management's judgments for certain items are especially critical for the Group's results and financial situation due to their materiality in amount.

(a) Impairment allowances on loans and advances

The Group reviews its loan portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Based on the assessment made by management, there is no overdue or impaired loan during 2013 and 2012 and correspondingly no impairment allowances were provided for the years ended 31 December 2013 and 2012.

More details on the credit risk of the loans and advances are included in note 3.2 and 22.

(b) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in active markets (for example, over-the-counter derivatives) is determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(c) **Held-to-maturity financial assets**

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity date as held-to-maturity financial assets. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity.

(d) **Income taxes**

Determining income tax provisions involves significant judgement. There are many transactions and calculation for which the ultimate tax determination is uncertain. The Group evaluates tax implications of transactions and tax provisions are set up accordingly. Deferred tax assets are recognised for tax losses not yet used and temporary deductible difference arising from donation provisions. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

35. IMMEDIATE HOLDING COMPANY AND ULTIMATE HOLDING COMPANY

The immediate holding company is BOC International Holdings Limited. The Company is subject to the control of the State Council of the People's Republic of China Government through China Investment Corporation and its wholly-owned subsidiary Central Huijin Investment Ltd.

36. COMPARATIVE AMOUNTS

Certain comparative figures in 2012 relating to accounts and other payables were reclassified to conform with the current presentation of the 2013 financial statements. These reclassifications do not have any impact to the Group's and Company's total asset, total liabilities, total shareholders' equity as at 31 December 2012 and profit after taxation for the year ended.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on

30 APR 2014