BOCI ASIA LIMITED
中銀國際亞洲有限公司

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2012

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 ("the Group") submit their report together with the audited financial statements for the year ended 31 December 2012.

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 4.

The directors do not recommend payment of a final dividend (2011: HK$Nil) in respect of the year ended 31 December 2012.

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 9, note 28 and note 29 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	
Ng Meng Hua	(resigned on 12 June 2012)
Tse Yung Hoi	(resigned on 1 January 2013)
Chan Wing Chiu	(resigned on 20 March 2013)
Wong Andrew Chung Lap	(resigned on 15 January 2013)
Wan Siu Wah Wilson	(resigned on 22 June 2012)
Leung Yiu Kei	(appointed on 23 July 2012)
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)
Du Jinsong	(appointed on 20 March 2013)

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 (CONTINUED)

Donations

The Group and the Company did not make any donation for charitable or other purpose during the year (2011: HK$Nil).

Directors' interests

No contracts of significance in relation to the Group's business to which the Company, 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 associates, 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
中銀國際亞洲有限公司

REPORT OF THE DIRECTORS (CONTINUED)

Auditors

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

On behalf of the Board

Director

Hong Kong, 29 April 2013

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 HK$	2011 HK$
Revenue	5	2,066,786,513	2,287,806,809
Trading gain/(loss), net	5	281,535,619	(372,901,273)
Other income	6	214,871,627	210,724,293
Total income		2,563,193,759	2,125,629,829
Commission and clearing expenses		(462,692,231)	(582,629,443)
Staff costs	7	(574,666,198)	(484,124,821)
Operating lease rental in respect of leased premises		(50,904,342)	(50,427,822)
Depreciation	14	(7,665,553)	(19,176,583)
Information technology and communications expenses		(99,828,684)	(113,779,046)
Management fee to related companies	32	(424,762,880)	(346,853,315)
Other operating expenses	9	(94,582,048)	(108,204,153)
		(1,715,101,936)	(1,705,195,183)
Finance costs	10	(175,899,389)	(114,026,584)
Profit before taxation		672,192,434	306,408,062
Income tax expense	11	(75,603,182)	(35,315,590)
Profit after taxation for the year		596,589,252	271,092,472
Attributable to:			
Equity holders of the Company		596,589,252	271,092,472
Dividends	13	-	-

Notes to the consolidated financial statements are an integral part of these 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 2012

	Note	2012 HK$	2011 HK$
Profit after taxation for the year		596,589,252	271,092,472
Other comprehensive income:			
Fair value gains of available-for-sale financial assets, net of tax	18	-	171,210
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		596,109,252	271,263,682
Attributable to:			
Equity holders of the Company		596,109,252	271,263,682

Notes to the consolidated financial statements are an integral part of these financial statements.

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Note	2012 HK$	2011 HK$
ASSETS			
Non-current assets			
Plant and equipment	14	7,612,047	15,033,800
Intangible assets	15	50,005,899	50,006,537
Available-for-sale financial assets	18	355,000	1,255,000
Statutory deposits and other assets		16,854,908	9,858,444
Deferred income tax assets	17	37,526,355	55,552,303
		112,354,209	131,706,084
Current assets			
Financial assets at fair value through profit or loss	19	219,612,658	475,874,742
Derivative financial instruments	20	49,530,905	123,545,061
Loans and receivables	21	21,176,028,873	11,187,203,309
Amounts due from immediate holding company	24	1,888,682,018	2,010,253,684
Cash and balances with banks	22	5,923,976,984	13,515,017,098
Taxation recoverable		45,008,715	11,665,176
		29,302,840,153	27,323,559,070
Total assets		29,415,194,362	27,455,265,154
LIABILITIES			
Current liabilities			
Bank loans and other borrowings – unsecured	32	481,093,981	465,905,219
Subordinated loans from immediate holding company	24	2,285,000,000	2,285,000,000
Amounts due to immediate holding company	24	5,902,733,484	4,579,592,735
Amounts due to fellow subsidiaries	23	77,588,288	199,999,952
Accounts and other payables	25	9,361,632,395	4,603,121,700
Deposits from customers	26	6,842,268,482	11,313,719,258
Derivative financial instruments	20	110,003,413	150,439,868
Financial liabilities at fair value through profit or loss	27	153,164,177	237,605,400
Taxation payable		5,704,684	19,800,968
		25,219,188,904	23,855,185,100
Non-current liabilities			
Deferred income tax liabilities	17	120,185	304,033
		120,185	304,033
Total liabilities		25,219,309,089	23,855,489,133

Notes to the consolidated financial statements are an integral part of these financial statements.

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2012

	Note	2012 HK$	2011 HK$
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	28	2,000,000,000	2,000,000,000
Reserve for fair value changes of available-for-sale financial assets		15,000	495,000
Retained earnings		2,195,870,273	1,599,281,021
		4,195,885,273	3,599,776,021
Total liabilities and equity		29,415,194,362	27,455,265,154

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Director Director

Notes to the consolidated financial statements are an integral part of these financial statements.

BOCI ASIA LIMITED
中銀國際亞洲有限公司

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

	Note	2012 HK$	2011 HK$
ASSETS			
Non-current assets			
Investment in subsidiaries	16	1,722,792,046	1,722,792,046
Plant and equipment	14	499,205	833,677
Deferred income tax assets	17	36,889,461	55,552,303
		1,760,180,712	1,779,178,026
Current assets			
Financial assets at fair value through profit or loss	19	218,921,804	475,213,179
Derivative financial instruments	20	5,268,450	16,941,809
Loans and receivables	21	241,389,157	205,580,196
Amounts due from immediate holding company	24	903,682,018	978,253,684
Amounts due from a subsidiary	23	3,862,963	3,862,963
Cash and balances with banks	22	857,841,708	591,888,073
Taxation recoverable		32,822,214	11,665,176
		2,263,788,314	2,283,405,080
Total assets		4,023,969,026	4,062,583,106
LIABILITIES			
Current liabilities			
Subordinated loans from immediate holding company	24	385,000,000	385,000,000
Amounts due to immediate holding company	24	468,119,702	412,627,254
Amounts due to fellow subsidiaries	23	74,696,585	198,996,531
Accounts and other payables	25	128,646,447	163,936,635
Derivative financial instruments	20	47,328,995	45,582,633
Financial liabilities at fair value through profit or loss	27	153,164,177	237,605,400
Total liabilities		1,256,955,906	1,443,748,453
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	28	2,000,000,000	2,000,000,000
Retained earnings	29	767,013,120	618,834,653
		2,767,013,120	2,618,834,653
Total liabilities and equity		4,023,969,026	4,062,583,106

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Director Director

Notes to the consolidated financial statements are an integral part of these 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 2012

		Attributable to equity holders of the Company			
	Note	Share capital HK$	Reserve for fair value changes of available-for-sale financial assets HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2011		2,000,000,000	323,790	1,328,188,549	3,328,512,339
Comprehensive income					
Profit after taxation for the year		-	-	271,092,472	271,092,472
Other comprehensive income					
Fair value gains of available-for-sale financial assets, net of tax	18	-	171,210	-	171,210
Total comprehensive income		-	171,210	271,092,472	271,263,682
Balance at 31 December 2011		2,000,000,000	495,000	1,599,281,021	3,599,776,021
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					
Release to consolidated income statement upon disposal of available-for-sale financial assets	18	-	(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

Notes to the consolidated financial statements are an integral part of these 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 2012

	Note	2012 HK$	2011 HK$
Cash flow from operating activities			
Net cash (outflow)/inflow from operating activities	30	(7,306,659,092)	7,813,553,786
Investing activities			
Purchase of plant and equipment	14	(243,800)	(1,847,203)
Purchase of intangible assets	15	-	(291,319)
Proceeds from sale and redemption of available-for-sale financial assets	18	900,000	60,363,945
Proceeds from disposal of plant and equipment		-	1,166,684
Net proceeds from disposal of a subsidiary		-	25,611,569
Net cash inflow from investing activities		656,200	85,003,676
(Decrease)/increase in cash and cash equivalents		(7,306,002,892)	7,898,557,462
Cash and cash equivalents at 1 January		13,207,571,786	5,309,014,324
Cash and cash equivalents at 31 December		5,901,568,894	13,207,571,786
Analysis of balance of cash and cash equivalents			
Cash at banks and in hand with original maturity within three months	22	1,643,199,849	6,716,706,504
Short-term bank deposits with original maturity within three months	22	4,059,037,685	5,634,371,109
Placements with banks with original maturity within three months	22	199,331,360	856,494,173
		5,901,568,894	13,207,571,786

Notes to the consolidated financial statements are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 2012 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. These consolidated financial statements have been approved for issue by the Board of Directors on 29 April 2013.

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.

2.1 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 33.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Standards, amendment and interpretations effective in 2012 and relevant to the Group's operations

- Amendment to HKFRS 7, 'Financial instruments: Disclosures', on transfer of financial assets - These amendments are as part of the IASB's comprehensive review of balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. Transfers of financial assets undertaken by the Group are mainly arising from its securities lending transactions. Refer to note 23 for detail disclosures.

(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 2012, and the Group has not early adopted them:

- Amendment to HKAS 1, 'Financial statements presentation', effective for the accounting period beginning on or after 1 July 2012. The amendment clarifies the presentation of items as 'other comprehensive income' (OCI) and requires entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to consolidated income statement subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This amendment affects the presentation of the consolidated financial statements but does not affect the results and operation of the Group.

- Amendment to HKAS 32 'Financial instruments: Presentation – Offsetting financial assets and financial liabilities', effective from 1 January 2014. The amendment is to the application guidance in HKAS 32, 'Financial instruments: Presentation', and clarifies some of the requirements for offsetting financial assets and financial liabilities on the consolidated statement of financial position. The adoption of this amendment will affect the presentation of certain financial assets and financial liabilities on the consolidated statement of financial position.

- Amendment to HKFRS 7 'Financial instruments: Disclosures – Offsetting financial assets and financial liabilities', effective from 1 January 2013: The amendment requires new disclosure requirements which focus on quantitative information about recognised financial instruments that are offset in the consolidated statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The amendment does not result in any financial impact but results in additional disclosure in the consolidated financial statements.

- HKFRS 9, 'Financial instruments', effective for the periods beginning on or after 1 January 2015. The standard addresses the classification, measurement and recognition of financial assets and financial liabilities.

2 Summary of significant accounting policies (Continued)

2.1 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 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the consolidated income statement, unless this creates an accounting mismatch.

The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in 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. The Group assessed the new standard and considers the adoption of HKFRS 10 will not have significant impact to the Group.

- HKFRS 12 'Disclosures of interests in other entities', effective for the accounting period beginning on or after 1 January 2013: The new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group will adopt HKFRS 12 from 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise 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 where its use is already required or permitted by other standards within HKFRSs. There is no significant impact to the consolidated financial statement of the Group as a result of the new standard.

- Amendment to HKFRSs 10 and 12 on transition guidance, effective for the accounting period on or after 1 January 2013: These amendments provide additional transition relief to HKFRSs 10 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied. The Group will adopt the amendment from 1 January 2013.

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.

2 Summary of significant accounting policies (Continued)

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another 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.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

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.

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.

2 Summary of significant accounting policies (Continued)

2.3 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 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.

2 Summary of significant accounting policies (Continued)

2.4 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 statement of financial position 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.

2.5 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.

2 Summary of significant accounting policies (Continued)

2.6 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.

2.7 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; or

2 Summary of significant accounting policies (Continued)

2.7 Financial assets (Continued)

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

(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;

(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

Held-to-maturity investments 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

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments 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.

2 Summary of significant accounting policies (Continued)

2.7 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 amortized 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.

2 Summary of significant accounting policies (Continued)

2.8 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.

(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.

2.9 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.

2 Summary of significant accounting policies (Continued)

2.10 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.

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.

2 Summary of significant accounting policies (Continued)

2.11 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.

2.12 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.

2.13 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.

2 Summary of significant accounting policies (Continued)

2.14 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.

(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.

2 Summary of significant accounting policies (Continued)

2.15 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.

2.16 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.

2.17 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.

2 Summary of significant accounting policies (Continued)

2.18 Revenue

Revenue comprises (i) brokerage commission, (ii) underwriting and placement commission, (iii) corporate finance and other 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 other 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.

2.19 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 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.

2 Summary of significant accounting policies (Continued)

2.20 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.

2.21 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 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.

2.22 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.

3 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.

<u>Risk management organisation</u>

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:

<u>Board level</u>

The Board of Directors 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.

3 Financial risk management (Continued)

Management level

The Executive Committee ("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").

RCC and 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.

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.

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 and 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 and 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.

3 Financial risk management (Continued)

3.1.2 Equity 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 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

31 December 2011 HK$'000	Change in volatility		
Change in equity price	**10%**	**0%**	**-10%**
10%	17,029	23,670	30,310
-10%	(36,577)	(29,937)	(23,297)

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.

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.

At 31 December 2012	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
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 form 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		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.1.3 Interest rate risk (Continued)

At 31 December 2011	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
Statutory deposits and other assets	-	-	-	-	9,858	9,858
Available-for-sale financial assets	-	-	-	-	1,255	1,255
Financial assets at fair value through profit or loss	-	-	-	-	475,875	475,875
Derivative financial instruments	-	-	-	-	123,545	123,545
Amounts due from immediate holding company	1,032,000	-	-	-	978,254	2,010,254
Accounts and other receivables	1,581,024	-	-	-	2,421,383	4,002,407
Loans to customers	6,939,754	178,480	66,562	-	-	7,184,796
Cash and balances with banks	10,312,667	1,041,151	122,789	-	2,038,410	13,515,017
Others	-	-	-	-	132,258	132,258
Total assets	19,865,445	1,219,631	189,351	-	6,180,838	27,455,265
Bank loans and other borrowings – unsecured	(465,905)	-	-	-	-	(465,905)
Subordinated loans form immediate holding company	(2,285,000)	-	-	-	-	(2,285,000)
Amounts due to immediate holding company	(3,646,361)	(234,255)	-	-	(698,977)	(4,579,593)
Amounts due to fellow subsidiaries	-	-	-	-	(200,000)	(200,000)
Accounts and other payables	-	-	-	-	(4,603,122)	(4,603,122)
Deposits from customers	(10,349,231)	(925,424)	(39,064)	-	-	(11,313,719)
Derivative financial instruments	-	-	-	-	(150,440)	(150,440)
Financial liabilities at fair value through profit or loss	-	-	-	-	(237,605)	(237,605)
Others	-	-	-	-	(20,105)	(20,105)
Total liabilities	(16,746,497)	(1,159,679)	(39,064)	-	(5,910,249)	(23,855,489)
Total interest repricing gap	3,118,948	59,952	150,287	-		

As at 31 December 2012, 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$62 million (2011: HK$31 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.

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 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 2012, the Group did not have significant open foreign currency positions, except for USD and CNY. The USD net short open position amounted to approximately HK$40.6 million (2011: net long position of HK$79.2 million). The CNY net long open position amounted to approximately HK$60.5 million (2011: net long position of HK$14.7 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 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% (2011: 5%), the profit before taxation would increase/decrease by HK$3,026,000 (2011: HK$737,000).

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.

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 trading book are monitored under the risk management framework, including VaR and stress limits.

3.2.3 Netting arrangement

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 balance sheet assets and liabilities 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.

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 collateralize 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.

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 collaterised.

- 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 32) 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.

- 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$8,483 million (2011: HK$3,792 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 32, 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 Financial risk management (Continued)

3.2 Credit risk (Continued)

3.2.6 Loans and receivables - Overdue and provision

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

	2012 HK$'000	2011 HK$'000
Loans to customers		
Neither past due nor impaired	12,337,829	6,974,698
Past due but not impaired	148,256	210,098
Gross	12,486,085	7,184,796
Accounts and other receivables		
Neither past due nor impaired	8,689,568	4,001,214
Past due but not impaired	376	1,193
Impaired	252	252
Gross	8,690,196	4,002,659
Impairment allowance	(252)	(252)
Total	21,176,029	11,187,203

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

	2012 HK$'000		2011 HK$'000	
Individual	Margin loans	Account receivables from dealing in securities	Margin loans	Account receivables from dealing in securities
Past due 1 day	948	-	12,201	122
Past due 2 - 5 days	136,596	164	93,296	-
Past due 6 - 30 days	426	66	6,646	10
Past due over 30 days	-	6	96,923	4
Total	137,970	236	209,066	136
Fair value of collateral	185,553	11,848	511,977	708
Corporate				
Past due 1 day	-	-	1,032	571
Past due 2 - 5 days	10,286	-	-	-
Past due 6 - 30 days	-	105	-	454
Past due over 30 days	-	35	-	32
Total	10,286	140	1,032	1,057
Fair value of collateral	86,305	27,440	1,859	601,143

There is no movement of impairment allowance during the year (2011: HK$Nil).

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

3.2.7 Debt securities - external credit rating

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

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 balance sheet assets 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 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

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

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 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
	22,784,393	1,194,330	1,099,717	34,800	25,113,240
Cash flow from derivative financial assets and liabilities (note)					
Settled on net basis	9,510	2,767	6,173	-	18,450
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
	18,164	(20)	(14)	-	18,130

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.1 Undiscounted cash flows by contractual maturities (Continued)

At 31 December 2011	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	465,905	-	-	-	465,905
Subordinated loans from immediate holding company	2,285,924	-	-	-	2,285,924
Amounts due to immediate holding company	4,030,933	235,245	317,176	-	4,583,354
Amounts due to fellow subsidiaries	200,000	-	-	-	200,000
Accounts and other payables	4,306,100	10,111	225,146	61,766	4,603,123
Deposits from customers	10,352,662	926,765	39,153	-	11,318,580
Financial liabilities at fair value through profit or loss	237,605	-	-	-	237,605
	21,879,129	1,172,121	581,475	61,766	23,694,491
Cash flow from derivative financial assets and liabilities (note)					
Settled on net basis	1,607	-	3,269	-	4,876
Settled on gross basis					
Total inflow	(6,559,858)	(2,987)	(20,419)	-	(6,583,264)
Total outflow	6,557,818	3,003	20,411	-	6,581,232
	(2,040)	16	(8)	-	(2,032)

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.

Note:
During the year, the Group entered a number of derivative transactions, of fair value approximately HK$42.2 million as at 31 December 2012 (2011: HK$99.6 million), with individual customers ("the originating transactions"). At the same time, the Group entered transactions with same terms and conditions with other financial institutions for hedging purpose ("the back-to-back transactions"). Both the originating transactions and the back-to-back transactions are excluded from the above undiscounted cash flow table.

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$6,887,000 (2011: gain of HK$2,804,000).

3 Financial risk management (Continued)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value

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

(c) Fair value hierarchy

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.

3 Financial risk management (Continued)

3.4 Fair value of financial assets and liabilities (Continued)

(c) Fair value hierarchy (Continued)

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

At 31 December 2011	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Financial assets at fair value through profit and loss			
- Equity securities	475,875	-	475,875
Derivatives financial instruments	-	123,545	123,545
Available-for-sale financial assets			
- Club debentures	-	1,255	1,255
Total	475,875	124,800	600,675
Financial liabilities at fair value through profit and loss			
- Equity securities	237,605	-	237,605
Derivatives financial instruments	26,280	124,160	150,440
Total	263,885	124,160	388,045

3 Financial risk management (Continued)

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$4,195,885,273 (2011: HK$3,599,776,021) on the face of consolidated statement of financial position and the subordinated loans from the immediate holding company of HK$2,285,000,000 (2011: 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 authorised 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.

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 year ended 31 December 2012 and 2011, the banking subsidiary complied with all externally imposed capital requirements by the HKMA. The subsidiaries regulated by 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 organized 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.

The main business segments of the Group are as follows:

Investment banking	• 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	• Provides brokerage, margin financing service, and private banking to individual and institutional clients.
Fixed income & equity market	• 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	• Provides structured financing and financial advisory services.
Treasury and others	• 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 Executive Committee, 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 32 for details of the related party transactions.

4 Segment information (Continued)

The Group's segment results for the year ended 31 December 2012 and 2011 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

31 December 2011	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	267,142	1,924,466	(202,414)	38,423	98,013	-	2,125,630
Total income – inter-segment	-	-	-	-	13,826	(13,826)	-
Commission and clearing expense	(5,587)	(571,616)	(7,610)	(66)	2,250	-	(582,629)
Depreciation	(378)	(18,146)	(362)	(91)	(200)	-	(19,177)
Other operating expenses	(201,001)	(488,878)	(73,728)	(13,814)	20,885	-	(756,536)
Finance costs - external	-	(67,417)	(5)	(23)	(46,582)	-	(114,027)
Finance costs – inter-segment	-	(11,034)	-	(2,792)	-	13,826	-
Segment results	60,176	767,375	(284,119)	21,637	88,192	-	653,261
Unallocated cost							(346,853)
Operating profits							306,408

5 Revenue and trading gain/(loss), net

(a) Revenue

	2012 HK$	2011 HK$
Brokerage commission	1,040,123,034	1,324,946,448
Underwriting and placement commission	335,167,101	486,068,181
Corporate finance and loan syndication fees	87,946,332	37,662,676
Interest income from bank deposits and loans to customers	555,561,400	377,510,877
Dividend income from listed equities held for trading	47,988,646	61,618,627
	2,066,786,513	2,287,806,809

(b) Trading gain/(loss), net

	2012 HK$	2011 HK$
Net realised/unrealised gain/(loss) on financial assets and financial liabilities (note)		
- Equity securities	(30,968,952)	(594,029,042)
- Debt securities	93,633,361	33,059,067
- Derivative financial instruments	218,871,210	188,068,702
	281,535,619	(372,901,273)

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 realized/unrealized 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 (2011: HK$Nil).

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

	2012 HK$	2011 HK$
Trading gain/(loss) from listed investments	176,123,329	(426,302,738)
Trading gain from unlisted investments	105,412,290	53,401,465
	281,535,619	(372,901,273)

6 Other income

	Note	2012 HK$	2011 HK$
Management fee income from related companies	32	116,140,527	86,265,156
Handling and custodian fees		53,427,011	67,988,197
Foreign exchange gain, net		24,379,395	43,475,706
Interest income from			
– BOCI Group companies	32	11,133,082	8,971,443
– Others		3,826,719	1,381,451
Others		5,964,893	2,642,340
		214,871,627	210,724,293

7 Staff costs

	2012 HK$	2011 HK$
Wages, salaries, other allowances and unutilised annual leave	327,224,290	300,535,634
Discretionary bonus		
- Short term employee benefits	222,537,056	143,130,001
- Other long-term employee benefits	27,589,253	16,271,999
- Forfeited bonus	(44,684,091)	(22,228,942)
Pension costs – defined contribution plans	23,710,112	17,479,612
Staff medical, recruitment, training, welfare expenses and termination benefits	18,289,578	28,936,517
	574,666,198	484,124,821

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

8 Directors' emoluments

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

	2012 HK$	2011 HK$
Fees	-	-
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	5,979,329	7,411,533
Contributions to pension schemes	392,214	452,376
Discretionary bonus		
- Short term employee benefits	714,098	14,300,001
- Other long-term employee benefits	259,672	5,199,999
	7,345,313	27,363,909

In addition to the directors' emoluments disclosed above, certain directors of the Company received emoluments from the immediate holding company and a fellow subsidiary, which totals HK$18,098,888 (2011: HK$13,839,183), 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 Other operating expenses

	2012 HK$	2011 HK$
Advertising expenses	5,102,653	16,182,135
Auditors' remuneration	839,700	839,700
Bank charges	8,998,501	7,349,856
Insurance	831,233	1,021,182
Legal and professional fees	7,118,063	6,748,221
Printing and stationary	3,618,801	4,350,308
Repairs and maintenance	1,326,666	699,265
Travel and entertainment	49,338,046	45,664,908
Utilities	3,833,998	3,948,077
Write-off of plant and equipment	-	119,082
License and registration fees	7,996,376	12,512,502
Others	5,578,011	8,768,917
	94,582,048	108,204,153

10 Finance costs

	2012 HK$	2011 HK$
Interest expenses:		
- deposits from customers and securities brokerage client	110,213,295	47,373,509
- bank loans and other borrowings (note 32)	65,686,094	66,653,075
	175,899,389	114,026,584

11 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 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	2012 HK$	2011 HK$
Current income tax:			
- Hong Kong profits tax		59,035,122	88,431,647
- Oversea tax		-	4,722,154
- Over provisions in prior years		(1,274,040)	(6,148)
Deferred income tax	17	17,842,100	(57,832,063)
		75,603,182	35,315,590

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2012 HK$	2011 HK$
Profit before taxation	672,192,434	306,408,062
Tax calculated at 16.5% (2011: 16.5%)	110,911,752	50,557,330
Income not subject to tax	(35,976,089)	(20,361,456)
Expenses not deductible for tax purposes	1,777,112	4,829,404
Over provisions in prior years	(1,274,040)	(6,148)
Others	164,447	296,460
Income tax expense	75,603,182	35,315,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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$148,178,467 (2011: HK$278,428,926).

13 Dividends

No dividend was declared and paid during the year 2012 and 2011.

14 Plant and equipment

The Group

	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Electronic equipment HK$	Total HK$
At 1 January 2011				
Cost	17,689,689	3,012,800	173,213,948	193,916,437
Accumulated depreciation	(7,185,922)	(1,432,542)	(152,756,550)	(161,375,014)
Net book amount	10,503,767	1,580,258	20,457,398	32,541,423
Year ended 31 December 2011				
Opening net book amount	10,503,767	1,580,258	20,457,398	32,541,423
Additions	1,253,234	552,718	41,251	1,847,203
Write-off	(74,266)	(24,445)	(20,371)	(119,082)
Disposal	-	(59,161)	-	(59,161)
Depreciation	(3,479,591)	(562,995)	(15,133,997)	(19,176,583)
Net book amount	8,203,144	1,486,375	5,344,281	15,033,800
At 31 December 2011				
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

14 Plant and equipment (Continued)

The Company

	Leasehold improvement HK$	Furniture, fixtures and equipment HK$	Electronic equipment HK$	Total HK$
At 1 January 2011				
Cost	817,839	1,051,406	2,636,853	4,506,098
Accumulated depreciation	(437,023)	(255,804)	(2,412,640)	(3,105,467)
Net book amount	380,816	795,602	224,213	1,400,631
Year ended 31 December 2011				
Opening net book amount	380,816	795,602	224,213	1,400,631
Write-off	(55,174)	(17,501)	(24,446)	(97,121)
Depreciation	(132,120)	(185,075)	(152,638)	(469,833)
Closing net book amount	193,522	593,026	47,129	833,677
At 31 December 2011				
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	193,522	593,026	47,129	833,677
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	69,930	414,223	15,052	499,205
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	69,930	414,223	15,052	499,205

15 Intangible assets

The Group

	Goodwill HK$	Broking membership HK$	Total HK$
Carrying amount at 1 January 2011	49,715,218	-	49,715,218
Addition	-	291,319	291,319
Carrying amount as at 31 December 2011 and 1 January 2012	49,715,218	291,319	50,006,537
Exchange difference	-	(638)	(638)
Carrying amount at 31 December 2012	49,715,218	290,681	50,005,899

The goodwill in the Group is mostly attributable to securities brokerage business, the cash-generating units (CGU). No impairment loss was noted in 2012 and 2011, as the CGU involved was highly profitable. In 2012, net profit of HK$369,319,615 (2011: HK$425,490,833) was generated by the securities brokerage business.

16 Investment in subsidiaries

	2012 HK$	2011 HK$
Investment at cost:		
Unlisted shares	1,722,792,046	1,722,792,046

The following is a list of the subsidiaries at 31 December 2012:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held
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% (2011: 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	
	2012	2011
	HK$	HK$
Deferred tax assets to be recovered within 12 months	36,889,461	55,552,303
Deferred tax assets to be recovered after more than 12 months	636,894	-
	37,526,355	55,552,303
Deferred tax liabilities to be recovered after more than 12 months	(120,185)	(304,033)

	The Company	
	2012	2011
	HK$	HK$
Deferred tax assets to be recovered within 12 months	36,889,461	55,552,303

17 Deferred income tax (Continued)

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 2011		-	-	-
Recognised in the consolidated income statement	11	55,552,303	-	55,552,303
At 31 December 2011 and 1 January 2012		55,552,303	-	55,552,303
Recognised in the consolidated income statement	11	(18,662,842)	636,894	(18,025,948)
At 31 December 2012		36,889,461	636,894	37,526,355

Deferred tax liabilities

	Note	Accelerated tax depreciation HK$
At 1 January 2011		2,583,793
Recognised in the consolidated income statement	11	(2,279,760)
At 31 December 2011 and 1 January 2012		304,033
Recognised in the consolidated income statement	11	(183,848)
At 31 December 2012		120,185

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

The Group and the Company has no significant unrecognized deferred tax position (2011: HK$Nil).

18 Available-for-sale financial assets

The Group

	2012 HK$	2011 HK$
Non-current assets		
- Club debentures, unlisted	355,000	1,255,000

The movement in available-for-sale financial assets is summarised as follows:

The Group

	2012 HK$	2011 HK$
At 1 January	1,255,000	61,402,452
Amortisation	-	45,283
Net change in fair value	-	171,210
Sale and redemption	(900,000)	(60,363,945)
At 31 December	355,000	1,255,000

19 Financial assets at fair value through profit or loss

The Group

	2012 HK$	2011 HK$
Trading securities - at fair value		
- Equity securities, listed in Hong Kong	219,612,658	475,874,742
Market value of listed securities	219,612,658	475,874,742

The Company

	2012 HK$	2011 HK$
Trading securities - at fair value		
- Equity securities, listed in Hong Kong	218,921,804	475,213,179
Market value of listed securities	218,921,804	475,213,179

20 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: • 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.

20 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 2012			
Exchange rate contracts	7,852,796	5,059,526	23,471,489
Equity contracts	3,549,296	44,471,379	86,531,924
		49,530,905	110,003,413
At 31 December 2011			
Exchange rate contracts	11,097,525	12,002,912	10,256,895
Equity contracts	2,527,110	111,542,149	140,182,973
		123,545,061	150,439,868

The Company

	Notional Amount HK$'000	Assets HK$	Liabilities HK$
Derivatives – held for trading			
At 31 December 2012			
Equity contracts	1,398,793	5,268,450	47,328,995
At 31 December 2011			
Equity contracts	1,356,475	16,941,809	45,582,633

21 Loans and receivables

The Group

	2012 HK$	2011 HK$
Accounts receivable from dealing in securities	8,482,834,201	3,792,424,996
Accounts receivable from securities trading	89,768,352	49,554,450
Amount due from an associate company of BOCI Group	-	64,458,000
Fees and commission receivable	91,155,893	59,105,456
Deposits, prepayments and other receivables	26,437,734	37,116,034
Gross	8,690,196,180	4,002,658,936
Impairment allowance	(252,105)	(252,105)
	8,689,944,075	4,002,406,831
Loans to customers	12,486,084,798	7,184,796,478
Total	21,176,028,873	11,187,203,309

The Company

	2012 HK$	2011 HK$
Accounts receivable from securities trading	142,694,391	76,887,831
Amount due from an associate company of BOCI Group	-	64,458,000
Fees and commission receivable	91,155,893	59,105,456
Deposits, prepayments and other receivables	7,790,978	5,381,014
Gross	241,641,262	205,832,301
Impairment allowance	(252,105)	(252,105)
Total	241,389,157	205,580,196

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

As at 31 December 2012, the loans to customers, which included approximately HK$8,351 million (2011: HK$6,180 million) of receivables from margin clients, were secured by listed securities held as collateral of fair value of HK$67,306 million (2011: HK$46,527 million) and a cash deposit of HK$340 million (2011: HK$270 million). The Group is permitted to sell or re-pledge such collateral. As at 31 December, 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$188 million, HK$104 million and HK$129 million respectively as at 31 December 2012 (2011: HK$120 million, HK$90 million and HK$117 million respectively).

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

22 Cash and balances with banks

	The Group 2012 HK$	2011 HK$
Cash at banks and in hand	1,643,199,849	6,716,706,504
Short-term bank deposits		
– with original maturity within three months	4,059,037,685	5,634,371,109
– with original maturity over three months	22,408,090	-
Placements with banks		
– with original maturity within three months	199,331,360	856,494,173
– with original maturity over three months	-	307,445,312
	5,923,976,984	13,515,017,098

	The Company 2012 HK$	2011 HK$
Cash at banks and in hand	598,291,939	160,214,726
Short-term bank deposits		
– with original maturity within three months	259,549,769	431,673,347
	857,841,708	591,888,073

The Group maintains trust accounts with authorized institutions and other financial institutions as part of its normal business transactions. At 31 December 2012, trust accounts with authorized institutions and other financial institutions not otherwise dealt with in the consolidated financial statements amounted to approximately HK$16,800 million (2011: HK$12,813 million).

23 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 2012, the Company lent equity securities, which are all classified as financial assets at fair value through profit and loss, with fair value of HK$212,913,416 (2011: HK$394,686,756) to the fellow subsidiary and received a cash collateral of HK$220,856,994 (2011: HK$463,772,435).

As at 31 December 2012, the Company has borrowed equity securities with fair value of HK$203,025,945 (2011: HK$289,666,982) from the fellow subsidiary and placed a cash collateral of HK$146,692;250 (2011: HK$264,897,181) 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 and 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.

24 Amounts due from/to 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 2012, an amount of HK$1,888,682,018 (2011: HK$1,032,000,000) was lent to the immediate holding company for cash management and general funding purpose, which are unsecured and bears prevailing market interest rate and repayable within a month. As at 31 December 2011, an amount of HK$978,253,684 was lent to the immediate holding company for similar purpose, which is unsecured, interest free and repayable upon demand.

- An amount of HK$5,142,902,271 (2011: HK$3,880,616,228) 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 2012, an amount of HK$317,176,191 (2011: 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$442,655,022 (2011: HK$381,800,316) was paid by the immediate holding company on behalf of the Group for daily administrative activities, which are unsecured, interest free and repayable upon demand.

The Company

- As at 31 December 2012, an amount of HK$903,682,018 was lent to the immediate holding company for cash management and general funding purpose, which are unsecured and bears prevailing market interest rate and repayable within a month. As at 31 December 2011, an amount of HK$978,253,684 was lent to the immediate holding company for similar purpose, which is unsecured, interest free and repayable upon demand.

- As at 31 December 2012, an amount of HK$317,176,191 (2011: HK$317,176,191) was borrowed from the immediate holding company by the Company for cash management purpose, which is unsecured, interest free and repayable within 1 year.

- An amount of HK$150,943,511 (2011: HK$95,451,063) 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.

24 Amounts due from/to immediate holding company/subordinated loans from immediate holding company (Continued)

The subordinated loans from immediate holding company were borrowed by:

A subsidiary of the Company

(i) HK$1,400 million (2011: HK$1,400 million) drawn under a loan facility maturing on 24 October 2013. The amount shall be repayable with one month notice.

(ii) HK$500 million (2011: 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 (2011: 1-month HIBOR plus 50 basis points).

The Company

(i) HK$385 million (2011: HK$385 million) drawn under a loan facility maturing on 2 January 2014. The amount shall be repayable with one month notice. The loan is unsecured, bear interest at 1-month HIBOR plus 200 basis points (2011: 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.

25 Accounts and other payables

The Group

	2012 HK$	2011 HK$
Accounts payable from dealing in securities	8,653,648,588	4,229,326,186
Accounts payable from securities trading	2,668,304	4,012,856
Discretionary bonus payable	290,630,965	278,447,605
Others payables and accrued expenses	410,739,890	91,335,053
Amount due to an associate company of BOCI Group	3,944,648	-
	9,361,632,395	4,603,121,700

The Company

	2012 HK$	2011 HK$
Accounts payable from securities trading	96,559	-
Discretionary bonus payable	90,013,953	134,077,000
Other payables and accrued expenses	34,591,287	29,859,635
Amount due to an associate company of BOCI Group	3,944,648	-
	128,646,447	163,936,635

25 Accounts and other payables (Continued)

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$17,220 million as at 31 December 2012 (2011: HK$13,140 million).

26 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 32(a)(viii).

27 Financial liabilities at fair value through profit or loss

The Group and the Company

	2012 HK$	2011 HK$
Trading securities – at fair value		
- Equity securities, listed in Hong Kong	153,164,177	237,605,400

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 has been arisen from the Company's short selling of borrowed equity securities (refer to note 23). 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.

28 Share capital

	2012 HK$	2011 HK$
Authorised, issued and fully paid:		
200,000 ordinary shares of HK$10,000 each	2,000,000,000	2,000,000,000

29 Retained earnings

The Company

	Note	2012 HK$	2011 HK$
Balance at 1 January		618,834,653	340,405,727
Profit for the year	12	148,178,467	278,428,926
At 31 December		767,013,120	618,834,653

30 Cash flow from operating activities

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

	2012 HK$	2011 HK$
Profit before taxation	672,192,434	306,408,062
Interest income	(570,521,201)	(387,863,771)
Interest expense	175,899,389	114,026,584
Dividend income	(47,988,646)	(61,618,627)
Depreciation	7,665,553	19,176,583
Amortization of available-for-sale financial assets	-	(45,283)
Gain on disposal of plant and equipment	-	(1,107,523)
Release from equity upon disposal of available-for-sale financial assets	(480,000)	-
Write-off of plant and equipment	-	119,082
	236,767,529	(10,904,893)
(Increase)/decrease in statutory deposits and other assets	(6,996,464)	8,272,554
(Increase)/decrease in loans and receivables	(9,987,180,335)	1,323,808,586
Decrease /(increase) in derivative financial instruments (assets)	74,014,156	(58,351,810)
Decrease in financial assets at fair value through profit or loss	256,262,084	2,224,447,868
Decrease in cash and balances with banks with original maturity over three months	285,037,222	1,190,005,201
Increase in bank loans and other borrowings – unsecured	15,188,762	315,905,096
Increase/(decrease) in balance with the immediate holding company	1,444,712,415	(1,652,888,698)
Movement in balance with fellow subsidiaries	(122,411,664)	(133,970,257)
Decrease in derivative financial instruments (liabilities)	(40,436,455)	(36,163,918)
Increase/(decrease) in accounts and other payables	4,758,510,695	(811,799,920)
(Decrease)/increase in deposits from customers	(4,467,998,459)	5,149,921,859
(Decrease)/increase in financial liabilities at fair value through profit or loss	(84,441,223)	131,722,872
Dividend received	47,988,646	61,618,627
Interest received	566,005,954	385,392,635
Interest paid	(176,481,688)	(108,880,267)
Hong Kong and overseas tax paid	(105,200,267)	(164,581,749)
Net cash (outflow)/inflow from operating activities	(7,306,659,092)	7,813,553,786

31 Contingent liabilities and commitments

(a) Commitments under operating leases

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

	2012 HK$	2011 HK$
Land and buildings:		
Less than one year	11,988,369	36,226,592
Between one and five years	1,481,235	10,173,778
	13,469,604	46,400,370

	2012 HK$	2011 HK$
Equipment:		
Less than one year	183,924	436,899
Between one and five years	-	184,670
	183,924	621,569

(b) Loan and other commitment

As at the end of the reporting periods, the Group has no non-cancellable loan commitment (2011: HK$Nil).

As at 31 December 2012, the Group has a non-cancellable equity underwriting commitment of HK$20,887,747 (2011: HK$Nil) which expires within a month after the end of the reporting period.

32 Related-party transactions

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

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:

32 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

2012	Note	BOCI Group HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOCI Group HK$'000
Consolidated income statement				
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	-
Interest expense from 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)	-

2011	Note	BOCI Group HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOCI Group HK$'000
Consolidated income statement				
Interest income from bank deposits	i	-	112,398	-
Brokerage commission	ii	29,051	620,808	2,319
Underwriting and placement commission	iii	-	4,937	53,311
Management fee income	iv	86,265	-	-
Other income – interest income	i	8,971	132	-
Interest expense from loans and other borrowings	vii	(65,231)	(354)	-
Interest expense on customer deposits	viii	(922)	(74)	-
Commission expenses arising from brokerage activities	ii	(15,342)	(222,635)	-
Management fee expense	v	(346,853)	-	-
Operating lease rental in respect of leased premises	ix	-	(45,421)	-

32 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)

2012	Note	BOCI Group HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOCI Group HK$'000
Consolidated statement of financial position				
Bank balances and cash	i	-	5,492,924	-
Accounts receivable arising from dealing in securities	ii	97,137	2,939,852	130,050
Fee and commission receivables and others	iii	-	-	-
Derivative financial instruments (assets)	vi	20	1,081	-
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	-

2011	Note	BOCI Group HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOCI Group HK$'000
Consolidated statement of financial position				
Bank balances and cash	i	-	12,508,537	-
Accounts receivable arising from dealing in securities	ii	62,121	1,245,520	82,198
Fee and commission receivables and others	iii	-	813	64,458
Derivative financial instruments (assets)	vi	809	5,563	-
Deposits from customers	viii	424,646	2,001	-
Bank loans and other borrowings	vii	-	465,905	-
Accounts payable arising from dealing in securities	ii	98,906	1,017,122	-
Derivative financial instruments (liabilities)	vi	1,384	4,820	-

32 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)

(i) Interest income from bank deposits and bank balances and interest income from 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 24.

(ii) Commission income and expense arising from brokerage activities

During the year, the Group earned brokerage commission from securities dealing of approximately HK$32,810,000 and HK$407,906,000 (2011: approximately HK$29,051,000 and HK$620,808,000) from fellow subsidiaries in BOC International Holdings Limited 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$7,992,000 and HK$127,561,000 (2011: approximately HK$15,342,000 and HK$222,635,000) for the business entered.

As at 31 December 2012, the Group had a net payable of HK$141,500,000 from fellow subsidiaries in BOC International Holdings Limited and net payable of HK$828,496,000 from BOC Hong Kong (Holdings) Limited (2011: net payable of HK$36,785,000 from fellow subsidiaries in BOC International Holdings Limited and net receivable of HK$228,398,000 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$4,322,000 from Bank of China Limited and its subsidiaries (2011: HK$4,937,000). These commissions earned were executed at the relevant market rates at the time of the transactions. As at 31 December 2012, there is no outstanding fee receivable from BOC Hong Kong (Holdings) Limited and its subsidiaries. (2011: HK$813,000).

An underwriting and placement activity was also jointly conducted by the Group and one of its associates. As at 31 December 2012, the Group has outstanding fee payable to the associate, amounted to HK$3,945,000 (2011: receivable of HK$64,458,000) for its services provided. Fee expense of HK$3,945,000 (2011: fee income of HK$53,311,000) 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.

32 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, 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 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$64,021,000 and HK$1,651,000 (2011: HK$65,231,000 and HK$354,000) 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 2012, the outstanding customer deposits amounted to HK$164,837,000 and HK$2,010,000 (2011: HK$424,646,000 and HK$2,001,000) and interest expenses of HK$1,837,000 and HK$9,000 (2011: HK$922,000 and HK$74,000) 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 31 are with that fellow subsidiary.

(x) 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 managementwhich compensation was disclosed in note 8 to the consolidated financial statements.

32 Related-party transactions (Continued)

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

The 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$2,000 (2011: HK$40,000) to the Charity Fund. As at 31 December 2012, there is outstanding customer deposits amounting to HK$4,247,000 (2011: HK$4,961,000) placed by the Charity Fund.

33 Critical accounting estimates, and judgements in applying accounting policies

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.

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.

34 Immediate holding company and ultimate holding company

The immediate holding company is BOC International Holdings Limited. Central Huijin Investment Ltd., acting on behalf of the State Council of the People's Republic of China, is the ultimate holding company of the Company.

INDEPENDENT AUDITOR'S 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 (together, the "Group") set out on pages 4 to 71, which comprise the consolidated and Company statement of financial position as at 31 December 2012, 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 notes.

Directors' responsibility for the financial statements

The directors 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 financial statements of the Company 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.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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 financial statements of the Company 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 auditor's judgment, 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 auditor considers 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.

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BOCI ASIA LIMITED (CONTINUED)
中銀國際亞洲有限公司
(incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2012, and of its 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 the Hong Kong Securities and Futures (Accounts and Audit) Rules of the Hong Kong Securities and Futures Ordinance

In our opinion, the financial statements of the Company 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 April 2013