

BOCI ASIA LIMITED
中銀國際亞洲有限公司

2013 INTERIM REPORT

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Unaudited Six months ended 30 June	
	Note	2013 HK\$	2012 HK\$
Turnover	4	1,105,826,884	985,458,802
Other income		100,412,909	128,486,957
Total income		<u>1,206,239,793</u>	<u>1,113,945,759</u>
Commission and clearing expenses		(244,372,582)	(216,144,256)
Staff costs		(223,995,710)	(185,662,259)
Operating lease rental in respect of leased premises		(26,622,492)	(25,041,617)
Depreciation		(1,760,472)	(4,964,928)
Information technology and communications expenses		(54,470,748)	(51,882,056)
Management fee to related companies		(175,546,893)	(162,021,469)
Other operating expenses		(44,804,809)	(39,654,228)
		<u>(771,573,706)</u>	<u>(685,370,813)</u>
Finance costs		(75,301,670)	(84,903,088)
Profit before taxation		<u>359,364,417</u>	<u>343,671,858</u>
Income tax expense	5	(49,846,432)	(39,287,640)
Profit after taxation for the period		<u>309,517,985</u>	<u>304,384,218</u>
Profit attributable to:			
Equity holders of the Company		<u>309,517,985</u>	<u>304,384,218</u>

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Unaudited	
	Six months ended 30 June	
	2013	2012
	HK\$	HK\$
Profit after taxation for the period	309,517,985	304,384,218
Other comprehensive income for the period, net of tax		
Available-for-sale financial assets		
- Transferred to the condensed consolidated income statement upon disposal	-	(480,000)
Total comprehensive income for the period	<u>309,517,985</u>	<u>303,904,218</u>
Attributable to:		
Equity holders of the Company	<u>309,517,985</u>	<u>303,904,218</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2013

	Note	Unaudited 30 June 2013 HK\$	Audited 31 December 2012 HK\$
ASSETS			
Non-current assets			
Plant and equipment	6	5,851,576	7,612,047
Intangible assets		50,006,117	50,005,899
Available-for-sale financial assets	7	355,000	355,000
Statutory deposits and other assets		15,463,822	16,854,908
Deferred income tax assets		33,653,522	37,526,355
		<u>105,330,037</u>	<u>112,354,209</u>
Current assets			
Financial assets at fair value through profit or loss	8	1,107,961,927	219,612,658
Derivative financial instruments	9	129,730,535	49,530,905
Loans and receivables	10	22,196,619,033	21,176,028,873
Amounts due from immediate holding company	12	1,244,573,000	1,888,682,018
Cash and balances with banks		7,433,343,424	5,923,976,984
Taxation recoverable		32,674,536	45,008,715
		<u>32,144,902,455</u>	<u>29,302,840,153</u>
Total assets		<u><u>32,250,232,492</u></u>	<u><u>29,415,194,362</u></u>
LIABILITIES			
Current liabilities			
Bank loans and other borrowings-unsecured		270,005,548	481,093,981
Subordinated loans from immediate holding company	12	2,285,000,000	2,285,000,000
Amounts due to immediate holding company	12	9,156,366,913	5,902,733,484
Amounts due to fellow subsidiaries	11	370,490,751	77,588,288
Accounts and other payables	13	6,286,879,397	9,361,632,395
Deposits from customers	14	8,973,302,172	6,842,268,482
Derivative financial instruments	9	224,886,145	110,003,413
Financial liabilities at fair value through profit or loss	15	138,990,000	153,164,177
Taxation payable		38,822,144	5,704,684
		<u>27,744,743,070</u>	<u>25,219,188,904</u>
Non current liabilities			
Deferred income tax liabilities		86,164	120,185
Total liabilities		<u><u>27,744,829,234</u></u>	<u><u>25,219,309,089</u></u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 30 JUNE 2013

	Note	Unaudited 30 June 2013 HK\$	Audited 31 December 2012 HK\$
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	2,000,000,000	2,000,000,000
Reserve for fair value change of available-for-sale financial assets		15,000	15,000
Retained earnings		2,505,388,258	2,195,870,273
		<u>4,505,403,258</u>	<u>4,195,885,273</u>
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Total liabilities and equity		<u><u>32,250,232,492</u></u>	<u><u>29,415,194,362</u></u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Unaudited			
	Share capital HK\$	Reserve for fair value change of available-for-sale financial assets HK\$	Retained earnings HK\$	Total HK\$
Balance at 1 January 2013	2,000,000,000	15,000	2,195,870,273	4,195,885,273
Comprehensive income for the period	-	-	309,517,985	309,517,985
Balance at 30 June 2013	<u>2,000,000,000</u>	<u>15,000</u>	<u>2,505,388,258</u>	<u>4,505,403,258</u>
Balance at 1 January 2012	2,000,000,000	495,000	1,599,281,021	3,599,776,021
Comprehensive income for the period	-	-	304,384,218	304,384,218
Release to the condensed consolidated income statement upon disposal of available-for-sale financial assets	-	(480,000)	-	(480,000)
Balance at 30 June 2012	<u>2,000,000,000</u>	<u>15,000</u>	<u>1,903,665,239</u>	<u>3,903,680,239</u>

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Unaudited Six months ended 30 June	
	2013 HK\$	2012 HK\$
Net cash inflow/(outflow) from operating activities	741,113,468	(7,606,925,025)
Net cash inflow/(outflow) from investing activities	1,390,868	(2,055,263)
	<hr/>	<hr/>
Net increase /(decrease) in cash and cash equivalents	742,504,336	(7,608,980,288)
Cash and cash equivalents at 1 January	5,901,568,894	13,207,571,786
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	<u>6,644,073,230</u>	<u>5,598,591,498</u>
 Analysis of balance of cash and cash equivalents		
Bank and cash balance with original maturity within three months	<u>6,644,073,230</u>	<u>5,598,591,498</u>

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1 Basis of preparation

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

2 Accounting policies

The accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the Group’s financial statements for the year ended 31 December 2012.

3 Segment information

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

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

The main business segments of the Group are as follows:

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

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

3 Segment information (Continued)

The Group's segment results for six months ended 30 June 2013 are as follows:

	Unaudited						
	Investments banking HK\$'000	Brokerage & wealth management HK\$'000	Fixed income and equity market HK\$'000	Leveraged & structured finance HK\$'000	Treasury and others HK\$'000	Elimination HK\$'000	Total HK\$'000
<u>Six months ended 30 June 2013</u>							
Total revenue – external	81,164	907,392	160,355	11,000	46,327	-	1,206,238
Total revenue – inter-segment	-	25,871	-	-	40,436	(66,307)	-
Commission and clearing expense	(40)	(243,944)	(90)	(73)	(226)	-	(244,373)
Depreciation	(110)	(1,525)	(80)	(35)	(10)	-	(1,760)
Other operating expenses	(70,911)	(221,041)	(46,704)	(4,276)	(6,961)	-	(349,893)
Finance costs – external	-	(43,359)	(2)	(1)	(31,939)	-	(75,301)
Finance costs – inter-segment	-	(40,248)	-	(188)	(25,871)	66,307	-
Segment results	10,103	383,146	113,479	6,427	21,756	-	534,911
Unallocated cost							(175,547)
Operating profits							<u>359,364</u>
<u>Six months ended 30 June 2012</u>							
Total revenue – external	106,414	865,318	95,716	13,711	78,163	-	1,159,322
Total revenue – inter-segment	-	55,674	-	-	29,275	(84,949)	-
Commission and clearing expense	-	(215,200)	(4)	(33)	(907)	-	(216,144)
Depreciation	(132)	(4,664)	(116)	(43)	(10)	-	(4,965)
Other operating expenses	(66,740)	(239,761)	(36,052)	(6,850)	97	-	(349,306)
Finance costs – external	-	(54,169)	(2)	(13)	(29,030)	-	(83,214)
Finance costs – inter-segment	-	(28,461)	-	(814)	(55,674)	84,949	-
Segment results	39,542	378,737	59,542	5,958	21,914	-	505,693
Unallocated cost							(162,021)
Operating profits							<u>343,672</u>

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

4 Turnover

	Unaudited Six month ended 30 June	
	2013 HK\$	2012 HK\$
Fees and commission income	801,509,815	705,845,765
Net realised/unrealised gain on financial assets and financial liabilities	8,476,595	7,105,061
Interest income	272,391,027	231,482,078
Dividend income from listed equities held for trading	23,449,447	41,025,898
	<u>1,105,826,884</u>	<u>985,458,802</u>

5 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (first half of 2012: 16.5%) on the estimated assessable profit for the first half of 2013. The amount of taxation charged to the condensed consolidated income statement represents:

	Unaudited Six months ended 30 June	
	2013 HK\$	2012 HK\$
Current income tax:		
- Hong Kong profits tax	45,301,531	37,792,080
- Overseas taxation	706,088	1,308,350
Deferred income tax expense	3,838,813	187,210
	<u>49,846,432</u>	<u>39,287,640</u>

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

6 Plant and equipment

During the six months ended 30 June 2013, the Group did not spend (first half of 2012: Nil) on the acquisitions of plant and equipment.

7 Available-for-sale financial assets

	Unaudited At 30 June 2013 HK\$	Audited At 31 December 2012 HK\$
Non-current assets, at fair value		
- Club debentures, unlisted	355,000	355,000
	<u>355,000</u>	<u>355,000</u>

8 Financial assets at fair value through profit or loss

	Unaudited At 30 June 2013 HK\$	Audited At 31 December 2012 HK\$
Trading securities, at fair value		
- Equity securities, listed in Hong Kong	1,107,961,927	219,612,658
	<u>1,107,961,927</u>	<u>219,612,658</u>

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

9 Derivative financial instruments

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

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

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

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

9 Derivative financial instruments (Continued)

	Notional amount HK\$'000	Unaudited At 30 June 2013	
		Assets HK\$	Liabilities HK\$
Exchange rate contracts	9,258,677	7,808,696	8,671,692
Equity contracts	5,136,684	121,921,839	216,214,453
		<u>129,730,535</u>	<u>224,886,145</u>
	Notional amount HK\$'000	Audited At 31 December 2012	
		Assets HK\$	Liabilities HK\$
Exchange rate contracts	7,852,796	5,059,526	23,471,489
Equity contracts	3,549,296	44,471,379	86,531,924
		<u>49,530,905</u>	<u>110,003,413</u>

10 Loans and receivables

	Unaudited At 30 June 2013 HK\$	Audited At 31 December 2012 HK\$
Accounts receivable from dealing in securities	4,951,814,308	8,482,834,201
Accounts receivable from securities trading	1,022,112,387	89,768,352
Loans to customers	16,057,115,467	12,486,084,798
Fees and commission receivable	126,007,855	91,155,893
Amount due from an associated company of BOCI Group	374,238	-
Deposits, prepayments and other receivables	39,446,883	26,437,734
Gross	22,196,871,138	21,176,280,978
Impairment allowance	(252,105)	(252,105)
Total	<u>22,196,619,033</u>	<u>21,176,028,873</u>

Loans to customers, which include receivables from margin clients of approximately HK\$11,206 million (end of 2012: approximately HK\$8,351 million), were secured by listed securities and a cash deposit. The Group is permitted to sell or re-pledge such collateral.

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

10 Loans and receivables (continued)

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

11 Amounts due to fellow subsidiaries

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

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

As at 30 June 2013, the Group has borrowed equity securities with market value of HK\$177,951,572 (end of 2012: HK\$203,025,945) from a fellow subsidiary and placed a cash collateral of HK\$179,629,746 (end of 2012: HK\$146,692,250) and lent equity securities with market value of HK\$527,478,528 (end of 2012: HK\$212,913,416) to a fellow subsidiary and received a cash collateral of HK\$564,032,333 (end of 2012: HK\$220,856,994).

12 Amounts due from/to immediate holding company/subordinated loans from immediate holding company

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

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

Subordinated loans were borrowed from immediate holding company of HK\$2,285,000,000, which are unsecured and bear interest at commercial interest rates.

The loans were approved by the Hong Kong Securities and Futures Commission as subordinated loans for exclusion from ranking liabilities in accordance with section 53(2) of the Hong Kong Securities and Futures (Financial Resources) Rules in the computation of regulatory liquid capital.

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

13 Accounts and other payables

	Unaudited At 30 June 2013 HK\$	Audited At 31 December 2012 HK\$
Accounts payable from dealing in securities	5,934,290,797	8,653,648,588
Accounts payable from securities trading	3,663,712	2,668,304
Discretionary bonus payable	162,491,102	290,630,965
Others payables and accrued expenses	186,433,786	410,739,890
Amount due to an associate company of BOCI Group	-	3,944,648
	<u>6,286,879,397</u>	<u>9,361,632,395</u>

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

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

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

14 Deposits from customers

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

15 Financial liabilities at fair value through profit or loss

	Unaudited At 30 June 2013 HK\$	Audited At 31 December 2012 HK\$
Trading securities, at fair value - Equity securities, listed in Hong Kong	138,990,000	153,164,177

16 Share capital

	Unaudited At 30 June 2013 HK\$	Audited At 31 December 2012 HK\$
Authorised, issued and fully paid: 200,000 ordinary shares of HK\$10,000 each	2,000,000,000	2,000,000,000

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

17 Contingent liabilities and commitments

(a) Commitments under operating leases

At 30 June, the Group had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	Unaudited At 30 June 2013 HK\$	Audited At 31 December 2012 HK\$
Land and buildings:		
Less than one year	16,544,660	11,988,369
Between one and five years	20,581,217	1,481,235
	<u>37,125,877</u>	<u>13,469,604</u>
Equipments:		
Less than one year	6,612	183,924

(b) Loan commitment

The Group had no non-cancellable loan commitment as at 30 June 2013 and 31 December 2012.

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

18 Material related-party transactions

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

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

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

Condensed consolidated income statement items	Six months ended	
	2013	2012
	HK\$'000	HK\$'000
Interest income from bank deposits	32,658	58,071
Brokerage commission	248,931	222,544
Dividend income	999	9,579
Underwriting and placement commission	6,881	26,167
Net realised/unrealised gain on financial assets and financial liabilities	-	16,704
Interest expense from loans and customer deposits	(41,507)	(30,401)
Commission expenses arising from brokerage activities	(84,986)	(67,623)
Operating lease rental in respect of leased premises	(23,393)	(22,158)
	<u> </u>	<u> </u>