Report of the Directors and Audited Financial Statements

BOCI ASIA LIMITED
中銀國際亞洲有限公司

31 December 2016

Building a better working world

BOCI ASIA LIMITED
中銀國際亞洲有限公司

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BOCI ASIA LIMITED
中銀國際亞洲有限公司

REPORT OF THE DIRECTORS

The directors of BOCI Asia Limited (the "Company") and its subsidiaries (collectively, the "Group") have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2016.

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 1 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 7.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2016 (2015: Nil).

Share issued
There were no movements in the Company's share capital during the year.

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

Leung Yiu Kei	
Chen Xiaolu	
Wang Jun	
Bian Fang	
Lee Kin Man	
Mak Chi Kin	
Ng Meng Hua	(appointed on 22 July 2016)
Ho Yui Kwong Kenny	(appointed on 31 March 2017)
Cao Yuanzheng	(resigned on 23 February 2016)
Lu Ying	(resigned on 11 August 2016)
Yu Ka Fai	(resigned on 1 September 2016)
Van Runckelen Didier	(resigned on 18 January 2017)

Directors (continued)

Other than the directors set out above, the directors of the Company's subsidiaries during the year and up to the date of this report are:

Chan Man	Qian Feng	Ng Oliver Tse Kuen	Wang Zhongze
Zhao Chuntang*	Lau Chi Sing	Wong Chung Mun*	Li Tong
Mak Shiu Ki	Li Xin*	Lam Kwong Siu	BOCI Secretaries Limited
Ng Chi To Graham*	Chua Alvin Cheng-Hock#	Ip Sio Kai	Tang Fong Chai Francis#

appointed during the year and up to the date of this report
* resigned/retired during the year and up to the date of this report

In accordance with the Company and its subsidiaries' articles of association, all directors retire by rotation and, being eligible, offer themselves for re-election.

Donations

The Group did not make any donation for charitable or other purpose during the year (2015: Nil).

Permitted indemnity provision

Every director of the Company shall be indemnified against all liabilities incurred by him/her to the extent permitted by the Companies Ordinance. The immediate holding company, BOC International Holdings Limited, has maintained insurance for the benefit of directors against liability.

Directors' interests

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

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors or a connected entity of 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, under which the immediate holding company provides 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. In addition, the Company entered into an agreement with its fellow subsidiary, BOCI Leveraged & Structured Finance Limited, under which the Company provides administration and support services to the fellow subsidiary in return for a fee which is agreed and reviewed on an annual basis.

The Company has agreements with its subsidiaries, BOCI Research Limited and BOCI Securities Limited respectively, 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. These agreements 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, BOC International Holdings Limited, 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.

Auditors

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

ON BEHALF OF THE BOARD

R Leung

Leung Yiu Kei
Director
Hong Kong
28 April 2017

EY 安永

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INDEPENDENT AUDITOR'S REPORT
To the members of BOCI Asia Limited
中銀國際亞洲有限公司
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of BOCI Asia Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 88, which comprise the consolidated statement of financial position as at 31 December 2016, and 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") and with reference to Practice Note 820 (Revised), *The Audit of Licensed Corporations and Associated Entities of Intermediaries* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the report of the directors.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT (continued)
To the members of BOCI Asia Limited
中銀國際亞洲有限公司
(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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 preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Company or to cease operations or have no realistic alternative but to do so.

In addition, the directors are required to ensure that the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. In addition, we are required to obtain reasonable assurance about whether the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT (continued)
To the members of BOCI Asia Limited
中銀國際亞洲有限公司
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Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Ernst & Young

Certified Public Accountants
Hong Kong
28 April 2017

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 HK$	2015 HK$
Revenue	5a	2,512,849,970	3,396,285,352
Trading gain, net	5b	296,215,354	207,524,393
Other income	6	249,442,911	372,269,607
Total income		3,058,508,235	3,976,079,352
Commission and clearing expenses		(604,737,028)	(1,027,017,864)
Staff costs	7	(651,251,544)	(902,708,424)
Other operating expenses		(862,633,954)	(872,773,632)
		(2,118,622,526)	(2,802,499,920)
Finance costs	10	(113,157,321)	(250,395,946)
Profit before taxation	9	826,728,388	923,183,486
Income tax expense	11	(63,434,134)	(153,550,508)
Profit for the year		763,294,254	769,632,978
Attributable to:			
Equity holders of the Company		763,294,254	769,632,978

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016 HK$	2015 HK$
Profit for the year	763,294,254	769,632,978
Other comprehensive income	-	-
Total comprehensive income for the year	763,294,254	769,632,978
Attributable to:		
Equity holders of the Company	763,294,254	769,632,978

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

BOCI ASIA LIMITED

中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK$	2015 HK$
NON-CURRENT ASSETS			
Plant and equipment	12	48,761	262,744
Intangible assets	13	49,715,218	49,715,218
Available-for-sale financial assets	15	355,000	355,000
Statutory deposits and other assets		102,488,896	121,951,471
Deferred income tax assets	14	1,312,198	1,312,218
Total non-current assets		153,920,073	173,596,651
CURRENT ASSETS			
Financial assets at fair value through profit or loss	16	3,327,798,641	3,498,438,235
Held-to-maturity financial assets	17	149,839,110	150,000,000
Derivative financial instruments	18	169,252,385	140,222,052
Loans and receivables	19	18,719,067,794	23,477,503,691
Amounts due from the immediate holding company	22	985,935,698	841,485,810
Amounts due from a related company	22	1,992,387	-
Cash and balances with banks	20	7,624,810,921	9,166,621,194
Taxation recoverable		53,510,568	26,559,972
Total current assets		31,032,207,504	37,300,830,954
CURRENT LIABILITIES			
Deposits and balances from banks	29	90,002,466	-
Subordinated loans from the immediate holding company	22	2,500,000,000	2,500,000,000
Amounts due to the immediate holding company	22	5,170,669,442	9,936,061,833
Amounts due to fellow subsidiaries	21	2,385,132,096	2,811,535,109
Amounts due to a related company	22	5,558,585	9,233,382
Accounts and other payables	23	5,432,500,991	7,271,204,179
Deposits from customers	24	7,759,645,415	7,325,959,586
Derivative financial instruments	18	239,259,329	273,118,111
Financial liabilities at fair value through profit or loss	25	60,265,161	221,996,628
Taxation payable		-	85,063,118
Total current liabilities		23,643,033,485	30,434,171,946
NET CURRENT ASSETS		7,389,174,019	6,866,659,008
TOTAL ASSETS LESS CURRENT LIABILITIES		7,543,094,092	7,040,255,659

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2016

	Notes	2016 HK$	2015 HK$
TOTAL ASSETS LESS CURRENT LIABILITIES		7,543,094,092	7,040,255,659
NON-CURRENT LIABILITIES			
Accounts and other payables	23	39,589,769	96,602,840
Amounts due to the immediate holding company	22	-	203,442,750
Total non-current liabilities		39,589,769	300,045,590
Net assets		7,503,504,323	6,740,210,069
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	26	2,000,000,000	2,000,000,000
Reserve for fair value changes of available-for-sale financial assets		15,000	15,000
Retained earnings		5,503,489,323	4,740,195,069
Total equity		7,503,504,323	6,740,210,069

Leung Yiu Kei
Director

Bian Fang
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to equity holders of the Company			
	Share capital HK$	Reserve for fair value changes of available-for-sale financial assets HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2015	2,000,000,000	15,000	3,970,562,091	5,970,577,091
Total comprehensive income for the year	-	-	769,632,978	769,632,978
Balance at 31 December 2015	2,000,000,000	15,000	4,740,195,069	6,740,210,069
Balance at 1 January 2016	2,000,000,000	15,000	4,740,195,069	6,740,210,069
Total comprehensive income for the year	-	-	763,294,254	763,294,254
Balance at 31 December 2016	2,000,000,000	15,000	5,503,489,323	7,503,504,323

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

BOCI ASIA LIMITED

中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	2016 HK$	2015 HK$
Cash flows from operating activities			
Net cash used in operating activities	27	(2,723,081,519)	(1,288,822,563)
Cash flows from investing activities			
Purchase of held-to maturity financial assets	17	(849,644,714)	(24,578,053,934)
Proceeds from redemption of held-to-maturity financial assets	17	850,000,000	26,847,610,288
Interest received from held-to-maturity financial assets		-	4,725,791
Exchange effect	17	-	1,776,072
Net cash generated from investing activities		355,286	2,276,058,217
Cash flows from financing activities			
Proceeds from subordinated loans from the immediate holding company		-	215,000,000
Net cash generated from financing activities		-	215,000,000
Net (decrease)/increase in cash and cash equivalents		(2,722,726,233)	1,202,235,654
Cash and cash equivalents at beginning of year		9,142,729,345	7,940,493,691
Cash and cash equivalents at end of year		6,420,003,112	9,142,729,345
Analysis of balances of cash and cash equivalents			
Cash at banks and in hand	20	1,650,615,732	3,011,541,543
Short-term bank deposits and placements with banks with original maturity within three months	20	4,769,387,380	6,131,187,802
Cash and cash equivalents at end of year		6,420,003,112	9,142,729,345

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

1. CORPORATE AND GROUP 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 Company and its subsidiaries (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.

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

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 28 April 2017.

Information about subsidiaries

Particulars of the Company's subsidiaries as at 31 December 2016 are as follows:

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

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 the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. 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 consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 30.

(a) Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Annual Improvements 2012-2014 Cycle	Amendments to a number of HKFRSs

The nature and the impact of each amendment is described below:

- Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

  (i) the materiality requirements in HKAS 1;
  (ii) that specific line items in the income statement and the statement of financial position may be disaggregated;
  (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
  (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Changes in accounting policies and disclosures (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the income statement. The amendments have had no significant impact on the Group's financial statements.

- Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

- *Annual Improvements to HKFRSs 2012-2014 Cycle* issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

  HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any disposal group held for sale during the year.

  HKFRS 7 *Financial Instruments: Disclosures*: Clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in HKFRS 7 in order to assess whether the HKFRS 7 disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendments have had no impact on the Group as the Group does not have any servicing contracts.

  HKAS 19 *Employee Benefits*: Clarifies that market depth of high quality corporate bonds used for discounting the post-employment benefit obligation for defined benefit plans is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment has had no impact on the Group as the Group does not have any defined benefit plans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[2]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	Clarification of HKFRS15 *Revenue from Contracts with Customers*[3]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

- In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018 and is currently assessing the impact of the standard.

- HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

- HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases - Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

- Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

- Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;
(ii) rights arising from other contractual arrangements; and
(iii) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for the subsidiaries. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated 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 and the Group's functional 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.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

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.

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, principally as follows:

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

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other operating expenses in the consolidated income statement.

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 other non-financial assets

Assets other than financial assets and non-current assets/a disposal group classified as held for sale 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.

2.7 Financial assets

2.7.1 Classification

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 financial assets, 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. Derivatives, including separated embedded derivatives, are classified as held for trading.

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

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;

(ii) A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the financial assets and/or financial liabilities is provided internally to the management; or

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

2.7.1 Classification (continued)

(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 the consolidated statement of financial positions as current assets, except for maturities greater than 12 months after the end of reporting period which are classified as non-current assets as statutory deposits and other assets.

(c) Held-to-maturity financial assets

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

(d) Available-for-sale financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets (continued)

2.7.2 Recognition and measurement

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.

Financial assets 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 income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets 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.

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 derecognised of or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income should be recognised in the consolidated income statement. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale financial assets are 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 on monetary securities are recognised in the consolidated income statement. Translation differences on non-monetary securities are recognised in other comprehensive income.

The fair values of quoted investments are based on the current bid prices. If the market for a financial asset is not active or the security is 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)

2.7 Financial assets (continued)

2.7.3 Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Impairment of financial assets (continued)

(b) Assets classified as available-for-sale

The Group assesses at the end of each 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 investment below its cost is considered in determining whether the investment 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 equity and recognised in the consolidated income statement.

Impairment losses recognised on equity instruments in the consolidated income statement 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.

2.10 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 finance costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial liabilities

(a) Classification, recognition and measurement

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

(b) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

2.12 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.

2.13 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.

2.14 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Employee benefits (continued)

(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 12 months are measured at the amounts expected to be paid when they are settled.

Bonus payments that are not due wholly within 12 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.

Any adjustments that reflect the estimation of bonus forfeited by the employees are recognised to the consolidated income statement during the year.

(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.

2.15 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Income tax (continued)

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, 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 financial assets and cash flow hedges, which are charged or credited directly to equity, is 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 Dividends

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

2.18 Revenue

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

Brokerage commission is recognised on a trade-date basis.

Underwriting and placement commission is recognised when the services related to the underlying transactions are rendered in accordance with the terms of the underlying agreements and mandates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Revenue (continued)

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

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

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

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 consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

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

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

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 account receivables in the consolidated statement of financial position.

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Related parties

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

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

or

(b) the party is an entity where any of the following conditions applies:
  (i) the entity and the Group are members of the same group;
  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
  (iii) the entity and the Group are joint ventures of the same third party;
  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
  (vi) the entity is controlled or jointly controlled by a person identified in (a);
  (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
  (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of risks: market risk, credit risk, operational risk, liquidity risk, legal risk, compliance risk, reputational risk and strategic 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 organisation and policies extend to cover the Group as there is no separate risk management organisation and policies for the Group. The risk management policy in BOCI Group applies to the Group as well.

Risk governance structure
The Group establishes a comprehensive organisation structure with both decision-making and control functions. The structure comprises three basic tiers: (1) the Shareholder; (2) the Board of Directors ("Board"); and (3) the Senior Management as led by the Chief Executive Officer ("CEO").

Shareholder level
The immediate holding company is a wholly-owned subsidiary and also an investment banking arm of Bank of China Limited ("BOC"). BOC, as the shareholder, authorises the Board to lead the Company.

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

RMC is responsible for assisting the Holdings' Board 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.

SDC is responsible for providing a high level strategic decision-making and co-ordination forum for the Group and advising the Board on the Group's long-term development needs and goals. Also, it is responsible for ensuring that the Group's resources are well-used and overseeing the implementation status of the Company's strategic plans.

3. FINANCIAL RISK MANAGEMENT (continued)

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

Management level
The Executive Committee ("EC") is composed of the CEO, Deputy CEO, Chief Financial Officer, and heads of the 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"), the Operating Committee ("OC"), the Commitment Committee ("CC") and the Investment Committee ("IC").

RCC, CC, OC and IC derive their decision-making authority from RMC and the EC. They 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 as follows:

- 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 Holdings' Board;
- Evaluating and approving significant transactions; and
- Undertaking any other duties assigned by the RMC of the Holdings' Board or the EC.

The RCC is chaired by the Deputy Chief Executive Officer and is composed of senior management of the major functional areas.

The OC is responsible for assisting the EC:

- To analysis, coordinate, review cross department operational process and issues, improving the operational efficiency and effectiveness;
- To advise middle offices and back offices on operational collaboration and resources allocations;
- To oversight the middle and back offices operations, strengthening the cost control and improve the cost effectiveness;
- To oversight the implementation of Business Continuity Plan;
- To review major process re-engineering and automation projects, and monitor their implementation; and

3. FINANCIAL RISK MANAGEMENT (continued)

Management level (continued)

- To oversight operational risk management issues; and to resolve cross department disputes on operational matters.

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.

The IC is composed of senior management, related business heads and head of risk management. It is responsible for overseeing the Group's principal investment business.

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 a regular basis. The RMD reports any risk issues and risk analysis on business proposals to RCC, RMC and the Holdings' Board. The Finance & Treasury Division ("FTD") evaluates and monitors the liquidity and market risks (i.e. interest rate and currency risk) of non-trading book.

3.1 Market risk

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

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

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

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 Holdings' 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 limit is set. Further, the VaR is prepared in BOCI Group as a whole and no separate VaR is prepared for the financial position in the Group.

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

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

Stress testing is used as a supplement to BOCI Group's VaR analysis. The Holdings' 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 Market risk (continued)

3.1.2 Equity price risk

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

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

31 December 2016 HK$'000	Change in volatility		
Change in equity price	**10%**	**0%**	**-10%**
10%	235,720	296,330	348,399
-10%	(394,354)	(351,792)	(319,985)

31 December 2015 HK$'000	Change in volatility		
Change in equity price	**10%**	**0%**	**-10%**
10%	271,578	306,003	340,429
-10%	(387,863)	(353,437)	(319,011)

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 a daily basis. For non-trading book, both RMD and FTD are responsible for monitoring and managing the interest rate risk with the aim to preserve capital and to ensure the steadiness and continuation of operations. The Group sets limits on the level of mismatch in interest rate and duration gap to control the risks associated with both parallel and non-parallel shifts of yield curves. Limit on stress loss is also imposed by the Board to control for the adverse impact on capital in case of uncontrollable market conditions.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.3 Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2016	Less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Over 1 year HK$'000	Non-interest bearing HK$'000	Total HK$'000
Statutory deposits and other assets	-	-	-	-	102,489	102,489
Available-for-sale financial assets	-	-	-	-	355	355
Held-to-maturity financial assets	49,996	99,843	-	-	-	149,839
Financial assets at fair value through profit or loss	-	-	-	-	3,327,799	3,327,799
Derivative financial instruments	-	-	-	-	169,252	169,252
Amounts due from the immediate holding company	782,800	200,000	-	-	3,136	985,936
Amounts due from a related company	-	-	-	-	1,992	1,992
Account and other receivables	645,865	-	-	-	4,283,728	4,929,593
Loans to customers	13,680,376	105,857	3,242	-	-	13,789,475
Cash and balances with banks	4,584,184	680,426	1,172,711	-	1,187,490	7,624,811
Others	-	-	-	-	104,587	104,587
Total assets	19,743,221	1,086,126	1,175,953	-	9,180,828	31,186,128
Bank loans and other borrowings – unsecured	(90,002)	-	-	-	-	(90,002)
Subordinated loans from the immediate holding company	(2,500,000)	-	-	-	-	(2,500,000)
Amounts due to the immediate holding company	(3,993,148)	(55,445)	(585,382)	-	(536,695)	(5,170,670)
Amounts due to fellow subsidiaries	-	-	-	-	(2,385,132)	(2,385,132)
Amounts due to a related company	-	-	-	-	(5,559)	(5,559)
Accounts and other payables	(722,422)	-	-	-	(4,749,669)	(5,472,091)
Deposits from customers	(4,933,575)	(1,500,911)	(1,325,159)	-	-	(7,759,645)
Derivative financial instruments	-	-	-	-	(239,259)	(239,259)
Financial liabilities at fair value through profit or loss	-	-	-	-	(60,265)	(60,265)
Others	-	-	-	-	-	-
Total liabilities	(12,239,147)	(1,556,356)	(1,910,541)	-	(7,976,579)	(23,682,623)
Total interest repricing gap	7,504,074	(470,230)	(734,588)	-		

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.3 Interest rate risk (continued)

At 31 December 2015	Less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Over 1 year HK$'000	Non-interest bearing HK$'000	Total HK$'000
Statutory deposits and other assets	-	-	-	-	121,951	121,951
Available-for-sale financial assets	-	-	-	-	355	355
Held-to-maturity financial assets	150,000	-	-	-	-	150,000
Financial assets at fair value through profit or loss	-	-	-	-	3,498,438	3,498,438
Derivative financial instruments	-	-	-	-	140,222	140,222
Amounts due from the immediate holding company	833,915	1,196	-	-	6,375	841,486
Account and other receivables	975,485	-	-	-	5,585,722	6,561,207
Loans to customers	16,830,107	79,500	6,691	-	-	16,916,298
Cash and balances with banks	7,860,369	9,116	11,131	-	1,286,005	9,166,621
Others	-	-	-	-	77,850	77,850
Total assets	26,649,876	89,812	17,822	-	10,716,918	37,474,428
Subordinated loans from the immediate holding company	(2,500,000)	-	-	-	-	(2,500,000)
Amounts due to the immediate holding company	(4,074,275)	(1,678,754)	(3,492,629)	(203,443)	(690,404)	(10,139,505)
Amounts due to fellow subsidiaries	-	-	-	-	(2,811,535)	(2,811,535)
Amounts due to a related company	-	-	-	-	(9,233)	(9,233)
Accounts and other payables	(902,956)	-	-	-	(6,464,851)	(7,367,807)
Deposits from customers	(6,334,784)	(956,262)	(34,914)	-	-	(7,325,960)
Derivative financial instruments	-	-	-	-	(273,118)	(273,118)
Financial liabilities at fair value through profit or loss	-	-	-	-	(221,996)	(221,996)
Others	-	-	-	-	(85,064)	(85,064)
Total liabilities	(13,812,015)	(2,635,016)	(3,527,543)	(203,443)	(10,556,201)	(30,734,218)
Total interest repricing gap	12,837,861	(2,545,204)	(3,509,721)	(203,443)		

As at 31 December 2016, if 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$65 million (2015: HK$89 million) higher/lower, mainly as a result of higher/lower net interest income earned on floating rate bank balances, loans to customers, balances with the immediate holding company, subordinated loan from the immediate holding company and deposits from customers.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.4 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency rates fluctuations.

The foreign exchange risk of the trading book is managed in the Group either by using foreign exchange spots or other derivative transactions. It is controlled under the risk management framework, including VaR and stress limits. For non-trading book, the Group sets 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 both RMD and FTD on a daily basis.

As at 31 December 2016, the Group did not have significant open foreign currency positions, except for USD and CNY. The USD net long open position amounted to approximately HK$1,193 million (2015: net long position of HK$1,161 million). The CNY net short open position amounted to approximately HK$741 million (2015: net short position of HK$931 million).

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

As HKD is pegged to USD, the Group is not exposed to significant foreign exchange risk on USD. Should CNY appreciates/depreciates against HKD by 5% (2015: 5%), the profit before taxation would decrease/increase by HK$37 million (2015: HK$46.5 million).

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. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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. Exposure to credit risk is managed in part by obtaining collateral from the clients. 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.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Debt securities and derivatives (continued)

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

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

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

3.2.3 Offsetting financial instruments

The following financial tables present details of the Group's financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

At 31 December 2016	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
Financial assets						
Amounts due from fellow subsidiaries	160,317	(160,317)	-	-	-	-
Loans and receivables	7,477,029	(3,878,744)	3,598,285	(805,980)	-	2,792,305
Derivative financial instruments	88,080	-	88,080	(11,811)	-	76,269
Amounts due from the immediate holding company	985,936	-	985,936	(985,936)	-	-
Total	8,711,362	(4,039,061)	4,672,301	(1,803,727)	-	2,868,574

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments (continued)

At 31 December 2016	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities						
Amounts due to a fellow subsidiary	(2,545,419)	160,317	(2,385,102)	-	-	(2,385,102)
Accounts and other payables	(8,060,921)	3,878,744	(4,182,177)	805,980	-	(3,376,197)
Derivative financial instruments	(81,937)	-	(81,937)	11,811	-	(70,126)
Amounts due to the immediate holding company	(5,170,669)	-	(5,170,669)	985,936	-	(4,184,733)
Total	(15,858,946)	4,039,061	(11,819,885)	1,803,727		(10,016,158)

At 31 December 2015	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position	Net amounts of financial assets presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral received	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial assets						
Amounts due from fellow subsidiaries	449,532	(449,532)	-	-	-	-
Loans and receivables	7,566,371	(3,476,506)	4,089,865	(1,004,293)	-	3,085,572
Derivative financial instruments	100,658	-	100,658	(25,187)	-	75,471
Amounts due from the immediate holding company	841,486	-	841,486	(841,486)	-	-
Total	8,958,047	(3,926,038)	5,032,009	(1,870,966)	-	3,161,043

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments (continued)

At 31 December 2015	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the consolidated statement of financial position	Net amounts of financial liabilities presented in the consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Financial liabilities						
Amounts due to a fellow subsidiary	(3,261,037)	449,532	(2,811,505)	-	-	(2,811,505)
Accounts and other payables	(9,087,773)	3,476,506	(5,611,267)	1,004,293	-	(4,606,974)
Derivative financial instruments	(99,021)	-	(99,021)	25,187	-	(73,834)
Amounts due to the immediate holding company	(10,139,505)	-	(10,139,505)	841,486	-	(9,298,019)
Total	(22,587,336)	3,926,038	(18,661,298)	1,870,966	-	(16,790,332)

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

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar arrangement will have the option to settle all such amounts on a net basis in the event of default of the other party. The Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously; the financial assets and liabilities are therefore not set off in the consolidated statement of financial position.

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, 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.

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

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

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

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 statement of financial position.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group based on the following:

- Margin loans are fully backed by collaterals including listed stocks, bonds and deposits, with fair value greater than the outstanding loan amounts. No margin loans were considered to be impaired at the end of the reporting periods.

- Secured term loans to individuals and corporates are fully backed by various types of collaterals, such as listed stocks, bonds, properties, insurance policies and deposits, with fair value of collaterals greater than the outstanding loan amounts.

- Available-for-sale financial assets are mainly unlisted club debentures with insignificant credit risk exposure.

- Cash and balances with banks were deposited in reputable banks including a fellow subsidiary and other subsidiaries of Bank of China Limited. 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 29) with minimum credit risk.

- Derivative financial instruments are considered to have minimal risk as offsetting enforceable netting agreements are signed with counterparties with collateral placed. Daily exposure monitoring was performed to ensure the credit risk exposure is within limit.

- Statutory deposits are placed with regulators and considered to have minimal risk.

- There was no material impairment on account receivables for trading in securities, options and futures contracts as at the end of the reporting periods. Among those unimpaired accounts and other receivables, approximately HK$4,118 million (2015: HK$6,334 million) is receivables from trading in securities, which normally has a settlement term of two days. Except for the account receivables arising from dealing in securities from other subsidiaries of Bank of China Limited as disclosed in note 29, there is no concentration of credit risk with respect to account receivables, as the Group has a large number of customers who are internationally dispersed. All the account receivables arising from other subsidiaries of Bank of China Limited 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

Significant loans and receivables as at 31 December are summarised as follows:

	2016 HK$'000	2015 HK$'000
Loans to customers		
Neither past due nor impaired	13,752,297	16,753,382
Past due but not impaired	38,941	162,917
Impaired	1,763	-
Gross	13,793,001	16,916,299
Impairment allowance	(1,763)	-
	13,791,238	16,916,299
Accounts and other receivables		
Neither past due nor impaired	4,927,829	6,560,799
Past due but not impaired	1	406
Impaired	38,631	19,551
Gross	4,966,461	6,580,756
Impairment allowance	(38,631)	(19,551)
	4,927,830	6,561,205
Total	18,719,068	23,477,504

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Loans and receivables - Overdue and provision (continued)

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

	2016 HK$'000		2015 HK$'000	
Individual	Margin loans	Account receivables from dealing in securities	Margin loans	Account receivables from dealing in securities
Past due 1 day	645	-	36,752	-
Past due 2 to 5 days	5,811	-	119,673	-
Past due 6 to 30 days	-	-	6,492	-
Past due over 30 days	18,867	1	-	264
Total	25,323	1	162,917	264
Fair value of collateral	99,240	-	260,983	2
Corporate				
Past due 1 day	-	-	-	-
Past due 2 to 5 days	256	-	-	-
Past due 6 to 30 days	13,362	-	-	-
Past due over 30 days	-	-	-	142
Total	13,618	-	-	142
Fair value of collateral	139,293	-	-	633,774

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk

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

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

The nature of businesses of the Group is financial intermediaries and a major part of its consolidated statement of financial position 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.

The Group measures and monitors its net funding requirements by constructing maturity profile that projects future cash flows arising from assets, liabilities and off balance sheet transactions. The Board sets liquidity ratios and limits on the mismatch, which are taken to control liquidity risks due to asset-liabilities mismatch.

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 gross basis include:

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.1 Undiscounted cash flows by contractual maturities (continued)

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

At 31 December 2016	On demand and up to 1 month HK$'000	1 to 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Non-derivative cash outflow liabilities					
Deposits and balances from banks	90,004	-	-	-	90,004
Subordinated loans from the immediate holding company	2,502,414	-	-	-	2,502,414
Amounts due to the immediate holding company	5,030,438	56,549	88,626	-	5,175,613
Amounts due to fellow subsidiaries	2,385,132	-	-	-	2,385,132
Amounts due to a related company	5,559	-	-	-	5,559
Accounts and other payables	5,171,772	8,515	252,214	39,590	5,472,091
Deposits from customers	4,935,164	1,503,742	1,333,119	-	7,772,025
Financial liabilities at fair value through profit or loss	60,265	-	-	-	60,265
	20,180,748	1,568,806	1,673,959	39,590	23,463,103
Cash flow from derivative financial assets and liabilities					
Settled on net basis	-	-	-	-	-
Settled on gross basis					
Total inflow	3,077,566	406,824	75,950	-	3,560,340
Total (outflow)	(3,052,368)	(411,155)	(84,057)	-	(3,547,580)
	25,198	(4,331)	(8,107)	-	12,760

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.1 Undiscounted cash flows by contractual maturities (continued)

At 31 December 2015	On demand and up to 1 month HK$'000	1 to 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Non-derivative cash outflow liabilities					
Subordinated loans from the immediate holding company	2,501,161	-	-	-	2,501,161
Amounts due to the immediate holding company	5,339,371	1,710,065	2,976,459	206,832	10,232,727
Amounts due to fellow subsidiaries	2,811,535	-	-	-	2,811,535
Amounts due to a related company	9,233	-	-	-	9,233
Accounts and other payables	6,817,289	9,148	444,767	96,603	7,367,807
Deposits from customers	6,335,033	956,920	36,396	-	7,328,349
Financial liabilities at fair value through profit or loss	221,996	-	-	-	221,996
	24,035,618	2,676,133	3,457,622	303,435	30,472,808
Cash flow from derivative financial assets and liabilities					
Settled on net basis	-	-	-	-	-
Settled on gross basis					
Total inflow	3,713,526	1,469,947	1,034,159	-	6,217,632
Total (outflow)	(3,723,871)	(1,472,774)	(1,083,482)	-	(6,280,127)
	(10,345)	(2,827)	(49,323)	-	(62,495)

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 the consolidated income statement during the year is approximately a gain of HK$58,325,000 (2015: HK$82,627,000).

(b) Financial instruments not measured at fair value

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

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

(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.

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 and investment return guarantee contracts related to provident fund and retirement fund schemes managed by the Group.

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)

3.4.1 Assets and liabilities measured at fair value

At 31 December 2016	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Financial assets at fair value through profit or loss			
- Equity securities	3,327,798	-	3,327,798
Derivatives financial instruments	-	169,252	169,252
Available-for-sale financial assets			
- Club debentures	-	355	355
Total	3,327,798	169,607	3,497,405
Financial liabilities at fair value through profit or loss			
- Equity securities	60,265	-	60,265
Derivatives financial instruments	98,806	140,453	239,259
Total	159,071	140,453	299,524

At 31 December 2015	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Financial assets at fair value through profit or loss			
- Equity securities	3,498,438	-	3,498,438
Derivatives financial instruments	-	140,222	140,222
Available-for-sale financial assets			
- Club debentures	-	355	355
Total	3,498,438	140,577	3,639,015
Financial liabilities at fair value through profit or loss			
- Equity securities	221,996	-	221,996
Derivatives financial instruments	116,230	156,888	273,118
Total	338,226	156,888	495,114

During the years ended 31 December 2016 and 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

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$7,503,504,323 (2015: HK$6,740,210,069) on the face of consolidated statement of financial position and the subordinated loans from the immediate holding company of HK$2,500,000,000 (2015: HK$2,500,000,000), are:

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

Capital adequacy of the banking subsidiary of the Group is monitored daily by the Group's management, employing techniques based on the Hong Kong 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 11.25%.

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

During the years ended 31 December 2016 and 2015, the banking subsidiary complied with all externally imposed capital requirements by the HKMA. The subsidiaries regulated by the SFC complied with the statutory capital requirement.

The subsidiaries regulated by the SFC are also required to maintain adequate financial resources to support their businesses. The Hong Kong Securities and Futures (Financial Resources) Rules require a licensed corporation to maintain liquid capital which is not less than its required liquid capital. During the year, the subsidiaries regulated by the SFC have maintained adequate financial capital to meet the requirement.

4. SEGMENT INFORMATION

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the EC 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.
Private banking	• Provides a range of services for high net-worth individual clients and corporate 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 EC, which is the chief operating decision maker.

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

4. SEGMENT INFORMATION (continued)

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 29 for details of the related party transactions.

The Group's segment results for the year ended 31 December 2016 and 2015 are as follows:

31 December 2016	Investment banking HK$'000	Brokerage & wealth management HK$'000	Private banking 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	328,051	2,054,581	364,729	244,597	12,496	54,054	-	3,058,508
Total income – inter-segment	-	-	13,752	-	-	52,577	(66,329)	-
Commission and clearing expense	(1,500)	(586,663)	(12,135)	-	1	(4,440)	-	(604,737)
Depreciation	-	(194)	(10)	(4)	-	(6)	-	(214)
Other operating expenses	(216,809)	(503,225)	(143,417)	(103,915)	(7,080)	(3,133)	-	(977,579)
Finance costs – external	-	(5,080)	(13,287)	-	-	(94,790)	-	(113,157)
Finance costs – inter-segment	-	-	(52,577)	-	-	(13,752)	66,329	-
Segment results	109,742	959,419	157,055	140,678	5,417	(9,490)	-	1,362,821
Unallocated cost								(536,093)
Operating profits								826,728

31 December 2015	Investment banking HK$'000	Brokerage & wealth management HK$'000	Private banking 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	210,237	2,906,258	559,160	148,841	19,475	132,107	-	3,976,078
Total income – inter-segment	-	-	25,095	-	-	95,790	(120,885)	-
Commission and clearing expense	(21)	(1,007,528)	(18,115)	(254)	(6)	(1,094)	-	(1,027,018)
Depreciation	(80)	(1,502)	(31)	(33)	-	(7)	-	(1,653)
Other operating expenses	(260,511)	(584,537)	(234,271)	(163,831)	(31,650)	36,269	-	(1,238,531)
Finance costs – external	-	(6,870)	(24,465)	(10)	(5)	(219,046)	-	(250,396)
Finance costs – inter-segment	-	-	(94,636)	-	(1,154)	(25,095)	120,885	-
Segment results	(50,375)	1,305,821	212,737	(15,287)	(13,340)	18,924	-	1,458,480
Unallocated cost								(535,297)
Operating profits								923,183

5. REVENUE AND TRADING GAIN, NET

(a) Revenue

	2016 HK$	2015 HK$
Brokerage commission	1,205,895,184	2,112,597,164
Underwriting and placement commission	408,350,560	328,072,779
Corporate finance and loan syndication fees	195,979,037	89,733,788
Interest income from bank deposits and loans to customers	665,113,373	809,497,289
Dividend income from listed equities held for trading	37,511,816	56,384,332
	2,512,849,970	3,396,285,352

(b) Trading gain, net

	2016 HK$	2015 HK$
Net realised/unrealised gain/(loss) on financial assets and financial liabilities (note)		
- Equity securities	3,949,180	(399,664,114)
- Debt securities	166,294,459	209,125,053
- Derivative financial instruments	125,971,715	398,063,454
	296,215,354	207,524,393

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

All the net realised/unrealised gain/(loss) are arising from trading financial assets or financial liabilities. There was no net realised/unrealised gain/(loss) on financial assets and financial liabilities designated at fair value through profit or loss (2015: Nil).

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

	2016 HK$	2015 HK$
Trading gain from listed investments	215,347,186	138,636,556
Trading gain from unlisted investments	80,868,168	68,887,837
	296,215,354	207,524,393

6. OTHER INCOME

	Note	2016 HK$	2015 HK$
Management fee income from a related company	29	128,504,142	155,530,330
Handling and custodian fees		83,987,688	88,852,048
Foreign exchange gain, net		17,397,639	102,453,513
Interest income from			
- BOCI Group companies	29	10,520,008	13,143,332
- Held-to-maturity financial assets		195,548	4,552,368
- Others		3,974,586	2,205,146
Others		4,863,300	5,532,870
		249,442,911	372,269,607

7. STAFF COSTS

	2016 HK$	2015 HK$
Wages, salaries, other allowances and unutilised annual leave	404,737,143	395,554,984
Discretionary bonus and other long-term employee benefits	201,116,621	459,301,981
Pension costs - defined contribution plans	29,605,007	28,196,286
Staff medical, recruitment, training, welfare expenses and termination benefits	15,792,773	19,655,173
	651,251,544	902,708,424

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

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 HK$	2015 HK$
Basic salaries, housing allowances, other allowances and benefits in kind	10,560,064	9,050,559
Contributions to pension schemes	980,888	887,263
Discretionary bonus		
- Short term employee benefits	9,132,295	11,314,380
- Other long-term employee benefits	2,429,605	4,114,322
	23,102,852	25,366,524

In addition to the directors' remuneration disclosed above, certain directors of the Company received remuneration from the immediate holding company and a fellow subsidiary, which totals HK$17,411,091 (2015: HK$38,196,755), 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 which are required to be disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (2015: Nil).

9. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Note	2016 HK$	2015 HK$
Operating lease rental in respect of leased premises		62,772,444	57,426,229
Depreciation	12	213,983	1,653,441
Management fee to related companies	29	536,093,479	535,297,470
Auditors' remuneration		814,000	814,000
Write-off and disposal of plant and equipment	12	-	80,917
Impairment of fees and commission receivable (note)		20,844,700	2,854,428

Note:

	2016 HK$	2015 HK$
Individually assessed impairment loss		
- loans and receivables		
- new provisions	20,844,700	2,854,428

10. FINANCE COSTS

	2016 HK$	2015 HK$
Interest expenses:		
- deposits from customers and securities brokerage client	19,344,342	36,430,264
- bank loans and other borrowings	93,812,979	213,965,682
	113,157,321	250,395,946

11. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 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	2016 HK$	2015 HK$
Current income tax:			
Hong Kong profits tax			
- Current year		72,118,664	158,005,533
- Over-provision in prior years		(9,240,928)	(5,271,301)
Overseas tax		556,378	989,895
Deferred income tax	14	20	(173,619)
		63,434,134	153,550,508

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:

	2016 HK$	2015 HK$
Profit before taxation	826,728,388	923,183,486
Tax calculated at statutory tax rate of 16.5% (2015: 16.5%)	136,410,184	152,325,275
Effect of different taxation rates in other countries	556,378	989,895
Income not subject to tax	(48,072,351)	(42,248,178)
Expenses not deductible for tax purposes	4,523,710	1,955,903
Over provisions in prior years	(9,240,928)	(5,271,301)
Unused tax losses not recognised	4,806	45,862,320
Utilisation of previously unrecognised tax losses	(20,726,263)	-
Others	(21,402)	(63,406)
Income tax expense at effective tax rate of 7.7% (2015: 16.6%)	63,434,134	153,550,508

12. PLANT AND EQUIPMENT

	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Electronic equipment HK$	Total HK$
Year ended 31 December 2015				
Opening net book amount	1,426,828	422,504	147,770	1,997,102
Disposal	-	(917)	(80,000)	(80,917)
Depreciation	(1,317,327)	(280,500)	(55,614)	(1,653,441)
Net book amount	109,501	141,087	12,156	262,744
At 31 December 2015				
Cost	17,608,492	2,870,089	150,333,841	170,812,422
Accumulated depreciation	(17,498,991)	(2,729,002)	(150,321,685)	(170,549,678)
Net book amount	109,501	141,087	12,156	262,744
Year ended 31 December 2016				
Opening net book amount	109,501	141,087	12,156	262,744
Depreciation	(109,501)	(92,326)	(12,156)	(213,983)
Net book amount	-	48,761	-	48,761
At 31 December 2016				
Cost	17,608,492	2,505,277	148,516,865	168,630,634
Accumulated depreciation	(17,608,492)	(2,456,516)	(148,516,865)	(168,581,873)
Net book amount	-	48,761	-	48,761

13. INTANGIBLE ASSETS

	Goodwill HK$
Carrying amount as at 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	49,715,218

The goodwill in the Group is mostly attributable to securities brokerage business, the cash-generating units ("CGU"). No impairment loss was noted in 2015 and 2016, as the CGU involved was highly profitable. In 2016, net profit of HK$533,325,738 (2015: HK$894,921,940) was generated by the securities brokerage business.

14. DEFERRED INCOME TAX

	Note	Accelerated tax depreciation HK$
At 1 January 2015		1,138,599
Recognised in the consolidated income statement	11	173,619
At 31 December 2015 and 1 January 2016		1,312,218
Recognised in the consolidated income statement	11	(20)
At 31 December 2016		1,312,198

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group does not recognise deferred income tax assets of approximately HK$27,422,396 (2015: HK$48,143,853) in respect of losses amounting to approximately HK$166,196,339 (2015: HK$291,780,924) that can be carried forward against future taxable income, as certain subsidiaries of the Group have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. These tax losses have no expiry date.

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 HK$	2015 HK$
Club debentures, unlisted as at 1 January and 31 December	355,000	355,000

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK$	2015 HK$
Trading securities - at fair value - Equity securities, listed in Hong Kong	3,327,798,641	3,498,438,235
Market value of listed securities	3,327,798,641	3,498,438,235

17. HELD-TO-MATURITY FINANCIAL ASSETS

	2016 HK$	2015 HK$
Hong Kong Exchange Fund Bills, unlisted	149,839,110	150,000,000
Analysed by type of issuers as follows:		
Sovereigns	149,839,110	150,000,000
Analysed by issue specific credit rating as follows:		
Fitch, AA+	149,839,110	150,000,000

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

	2016 HK$	2015 HK$
At 1 January	150,000,000	2,421,505,849
Additions	849,644,714	24,578,053,934
Redemption	(850,000,000)	(26,847,610,288)
Exchange effect	-	(1,776,072)
Others	194,396	(173,423)
At 31 December	149,839,110	150,000,000

There were no overdue and impairment allowances made for the held-to-maturity financial assets of the Group as at 31 December 2016 and 31 December 2015.

18. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into equity, foreign exchange and interest rate 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.

18. 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.

	Notional amount HK$'000	Assets HK$	Liabilities HK$
Derivatives – held for trading			
At 31 December 2016			
Exchange rate contracts	3,458,417	11,333,365	14,860,683
Equity contracts	10,550,311	155,911,169	222,390,795
Interest rate contracts	80,000	2,007,851	2,007,851
		169,252,385	239,259,329
At 31 December 2015			
Exchange rate contracts	6,115,513	16,713,266	17,579,755
Equity contracts	8,504,715	123,508,786	255,538,356
		140,222,052	273,118,111

19. LOANS AND RECEIVABLES

	2016 HK$	2015 HK$
Account receivables from dealing in securities	4,760,560,208	6,334,091,250
Account receivables from securities trading	-	132,601
Fees and commission receivable	110,034,459	70,633,251
Deposits, prepayments and other receivables	97,630,043	175,898,875
Loans to customers	13,791,237,834	16,916,298,469
Gross	18,759,462,544	23,497,054,446
Less: Impairment allowance		
- loans to customers	(1,763,309)	-
- fees and commission receivable	(38,631,441)	(19,550,755)
Total	18,719,067,794	23,477,503,691

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

As at 31 December 2016, the loans to customers, which included approximately HK$9,287 million (2015: HK$11,892 million) of receivables from margin clients, were secured by listed securities held as collateral of fair value of HK$117,756 million (2015: HK$130,387 million) and cash deposits of HK$223 million (2015: HK$506 million). The Group is permitted to sell or re-pledge such collateral. As at 31 December 2016 and 2015, there were no collateral re-pledged.

The receivables exclude the brokerage client monies maintained in the trust accounts with a clearing participant and other brokers, Hong Kong Futures Exchange Clearing Corporation Limited and the Stock Exchange Options Clearing House of approximately HK$333 million, HK$171 million and HK$271 million respectively as at 31 December 2016 (2015: HK$234 million, HK$222 million and HK$397 million respectively).

As at the end of the reporting periods, there were impairment allowance on loans and receivables amounted to HK$40,394,750 (2015: HK$19,550,755) (Note 3.2.6).

During the year, there were no loans to employees which are required to be disclosed pursuant to sections 280 and 281 of the Hong Kong Companies Ordinance.

19. LOANS AND RECEIVABLES (continued)

Impairment allowances against loans and receivables:

	Loans to customers HK$	Fees and commission receivable HK$	Total HK$
At 1 January 2015	-	16,696,327	16,696,327
Charged to income statement	-	2,854,428	2,854,428
At 31 December 2015 and at 1 January 2016	-	19,550,755	19,550,755
Charged to income statement	1,764,014	19,080,686	20,844,700
Exchange difference	(705)	-	(705)
At 31 December 2016	1,763,309	38,631,441	40,394,750

20. CASH AND BALANCES WITH BANKS

	2016 HK$	2015 HK$
Cash at banks and in hand	1,650,615,732	3,011,541,543
Short-term bank deposits		
- with original maturity within three months	4,497,658,269	6,131,187,802
- with original maturity over three months	1,204,807,809	23,891,849
Placements with banks		
- with original maturity within three months	271,729,111	-
	7,624,810,921	9,166,621,194

The Group maintains trust accounts with authorised institutions and other financial institutions as part of its normal business transactions. At 31 December 2016, trust accounts with authorised institutions and other financial institutions not otherwise dealt with in the consolidated financial statements amounted to approximately HK$32,604 million (2015: HK$35,780 million).

21. AMOUNTS DUE TO FELLOW SUBSIDIARIES

Amounts due to fellow subsidiaries are all 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 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 Group 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 statement of 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 2016, the Group lent equity securities, which are all classified as financial assets at fair value through profit or loss, with fair value of HK$2,543,988,269 (2015: HK$3,304,305,657) to the fellow subsidiary and received a cash collateral of HK$2,545,383,679 (2015: HK$3,260,209,300).

As at 31 December 2016, the Group has borrowed equity securities with fair value of HK$129,402,379 (2015: HK$339,989,805) from the fellow subsidiary and placed a cash collateral of HK$160,317,332 (2015: HK$449,531,610) to the fellow subsidiary. The Group shorted part of the borrowed equity securities which are all classified as financial liabilities at fair value through profit or loss in the consolidated statement of 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 statement of financial position.

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

22. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/A RELATED COMPANY/SUBORDINATED LOANS FROM THE IMMEDIATE HOLDING COMPANY

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

- As at 31 December 2016, an amount of HK$982,800,000 (2015: HK$835,110,637) was lent to the immediate holding company for cash management and general funding purpose, which is unsecured, bears prevailing market interest rate and repayable within a year.

- An amount of HK$3,135,698 (2015: HK$6,375,173) was lent to the immediate holding company for the same purpose, which is unsecured, interest free and repayable upon demand.

- As at 31 December 2016, an amount of HK$4,135,293,267 (2015: HK$8,671,549,706) was borrowed from the immediate holding company by a subsidiary of the Group for cash management and general funding purpose, which is unsecured, bears prevailing market interest rate and repayable within one year. In the prior year, an amount of HK$203,442,750 was borrowed from the immediate holding company by a subsidiary for same purpose, which is unsecured, bears prevailing market interest rate and repayable over one year. An amount of HK$498,682,422 (2015: HK$574,108,541) was borrowed from the immediate holding company by the Company for same purpose, which is unsecured, interest free and repayable upon demand.

- An amount of HK$536,693,753 (2015: HK$690,403,586) was paid by the immediate holding company on behalf of the Group for daily administrative activities, which is unsecured, interest free and repayable upon demand.

22. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/A RELATED COMPANY/SUBORDINATED LOANS FROM THE IMMEDIATE HOLDING COMPANY (continued)

The Group also entered the following transaction with a related company with amounts and terms of the transaction as follows:

- An amount of HK$1,992,387 due from a related company (2015: Nil) and an amount of HK$5,558,585 (2015: HK$9,233,382) due to a related company are unsecured, interest-free and repayable upon demand with carrying balances approximating their fair value.

The subordinated loans from the immediate holding company were borrowed by:

A subsidiary of the Company
(i) HK$1,400 million (2015: HK$1,400 million) drawn under a loan facility maturing on 24 October 2017. The amount shall be repayable with one month notice.

(ii) HK$500 million (2015: 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 Commission.

Both subordinated loans are unsecured, bear interest at 1-month HIBOR plus 50 basis points (2015: 1-month HIBOR plus 50 basis points).

The Company
(i) HK$600 million (2015: HK$600 million) drawn under a loan facility. Pursuant to the written consent from the Hong Kong Securities and Futures Commission dated 31 December 2013, the maturity date of such loan facility is extended from 2 January 2016 to 2 January 2018 with the remaining terms unchanged. The amount shall be repayable with one month notice. The loan is unsecured, bear interest at 1-month HIBOR plus 200 basis points (2015: 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.

23. ACCOUNTS AND OTHER PAYABLES

	2016 HK$	2015 HK$
Account payables from dealing in securities	4,935,141,725	6,611,645,653
Account payables from securities trading	3,307,998	454,627
Discretionary bonus payable	290,749,618	540,496,365
Others payables and accrued expenses	242,891,419	215,210,374
	5,472,090,760	7,367,807,019

The carrying amounts of account payables approximate their fair value.

Account payables represent amounts due to brokerage clients, brokers and clearing houses, and are due within one month. Account payables to clients exclude those payables placed in trust accounts with authorised institutions, Hong Kong Futures Exchange Clearing Corporation Limited and Stock Exchange Options Clearing House and other financial institutions, which amounted to approximately HK$33,379 million as at 31 December 2016 (2015: HK$36,634 million).

Discretionary bonus payable represents bonus to be paid to staff. An amount of HK$40 million (2015: HK$97 million) is due more than one year as at 31 December 2016.

24. 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 29(a)(viii).

25. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016 HK$	2015 HK$
Trading securities – at fair value		
- Equity securities, listed in Hong Kong	60,265,161	221,996,628

26. SHARE CAPITAL

	2016 HK$	2015 HK$
Issued and fully paid:		
200,000 (2015: 200,000) ordinary shares	2,000,000,000	2,000,000,000

27. CASH FLOWS FROM OPERATING ACTIVITIES

Reconciliation of profit before taxation to net cash used in operating activities:

	2016 HK$	2015 HK$
Profit before taxation	826,728,388	923,183,486
Interest income	(650,087,410)	(833,950,503)
Interest expense	113,157,321	250,395,946
Dividend income	(37,511,816)	(56,384,332)
Depreciation	213,983	1,653,441
Impairment of fees and commission receivable	20,844,700	2,854,428
Write-off and disposal of plant and equipment	-	80,917
	273,345,166	287,833,383
Decrease/(increase) in statutory deposits and other assets	19,462,575	(17,066,426)
Decrease in loans and receivables	4,742,551,858	11,688,664,473
(Increase)/decrease in derivative financial instruments – assets	(29,030,333)	264,837,867
Decrease/(increase) in financial assets at fair value through profit or loss	170,639,594	(530,337,012)
Increase in cash and balances with banks with original maturity over three months	(1,180,915,960)	(21,113,778)
Increase in bank loans and other borrowings – unsecured	90,002,466	-
Movement in balances with the immediate holding company	(5,113,285,029)	(1,874,031,976)
Movement in balances with fellow subsidiaries	(426,403,013)	1,539,613,231
Movement in balances with a related company	(5,667,184)	(8,668,257)
Decrease in derivative financial instruments – liabilities	(33,858,782)	(595,121,740)
Decrease in accounts and other payables	(1,895,716,259)	(7,204,228,735)
Increase/(decrease) in deposits from customers	432,522,707	(4,663,206,570)
Decrease in financial liabilities at fair value through profit or loss	(161,731,467)	(618,106,256)
Dividend received	37,511,816	56,384,332
Interest received	644,932,353	829,422,979
Interest paid	(111,994,199)	(252,568,488)
Hong Kong and overseas tax paid	(175,447,828)	(171,129,590)
Net cash used in operating activities	(2,723,081,519)	(1,288,822,563)

28. COMMITMENTS

Commitments under operating leases

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

	2016 HK$	2015 HK$
Land and buildings:		
Less than one year	52,186,398	32,335,230
Between one and five years	69,204,285	32,484,182
	121,390,683	64,819,412

Financial commitments

As at 31 December 2016, the Group has no forward deposits placed (2015: HK$345,085,380).

29. RELATED PARTY TRANSACTIONS

Other than related party 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:

(a) **Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited**

2016	Note	BOC International Holdings Limited and its subsidiaries HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOC International Holdings Limited HK$'000
Consolidated income statement				
Interest income from bank deposits	i	-	103,315	-
Brokerage commission	ii	41,625	391,143	-
Underwriting and placement commission	iii	-	140,525	5,329
Management fee income	iv	128,504	-	-
Other income – interest income	i	10,520	-	-
Net realised/unrealised (loss)/gain on trading securities and derivatives	x	(57)	23	-
Interest expense on loans and other borrowings	vii	(90,960)	(587)	-
Interest expense on customer deposits	viii	(493)	(960)	-
Commission expenses arising from brokerage activities	ii	(4,793)	(149,278)	(1,055)
Commission expenses arising from corporate finance activities	iii	(3,923)	(1,485)	-
Management fee expense	v	(536,093)	-	-
Operating lease rental in respect of leased premises	ix	-	(59,073)	-
Bank charges	xii	(76)	(10,751)	-
Staff medical, recruitment, training & welfare expenses	xi	-	(10,855)	-

29. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

2015	Note	BOC International Holdings Limited and its subsidiaries HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOC International Holdings Limited HK$'000
Consolidated income statement				
Interest income from bank deposits	i	-	99,278	-
Interest income from Certificate of Deposit	xiv	-	4,267	-
Brokerage commission	ii	77,808	720,518	-
Underwriting and placement commission	iii	-	7,406	8,330
Management fee income	iv	155,530	-	-
Other income – interest income	i	13,143	-	-
Net realised/unrealised gain on trading securities and derivatives	x	2,586	-	-
Interest expense on loans and other borrowings	vii	(183,959)	(16,965)	-
Interest expense on customer deposits	viii	(1,137)	(5,079)	-
Commission expenses arising from brokerage activities	ii	(7,081)	(267,545)	(3,109)
Management fee expense	v	(535,297)	-	-
Operating lease rental in respect of leased premises	ix	-	(45,010)	-
Bank charges	xii	(85)	(22,861)	-
Staff medical, recruitment, training & welfare expenses	xi	-	(11,011)	-

29. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

2016	Note	BOC International Holdings Limited and its subsidiaries HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOC International Holdings Limited HK$'000
Consolidated statement of financial position				
Bank balances and cash	i	-	6,953,203	-
Account receivables arising from dealing in securities	ii	239,212	1,529,497	180,125
Amounts due from a related company	iii	-	-	1,992
Fee and commission receivable	iii	-	5,233	-
Derivative and other financial instruments (assets)	vi	684	71,329	-
Deposits and balances from banks	viii	-	90,002	-
Deposits from customers	viii	125,273	2,053	-
Account payables arising from dealing in securities	ii	480,534	1,969,420	-
Amount due to a related company	iii	-	-	5,559
Derivative and other financial instruments (liabilities)	vi	44,971	4,139	-

29. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

2015	Note	BOC International Holdings Limited and its subsidiaries HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOC International Holdings Limited HK$'000
Consolidated statement of financial position				
Bank balances and cash	i	-	8,758,129	-
Account receivables arising from dealing in securities	ii	517,698	1,803,531	494,470
Derivative and other financial instruments (assets)	vi	4,945	274,844	-
Deposits from customers	viii	294,625	2,040	-
Account payables arising from dealing in securities	ii	704,420	1,677,977	2,281
Amount due to a related company	iii	-	-	9,233
Derivative and other financial instruments (liabilities)	vi	58,785	10,518	-

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

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

The Group also received interest income from amount lent to BOCI Group companies for cash management purpose as disclosed in note 22.

29. RELATED PARTY TRANSACTIONS (continued)

(a) **Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)**

(ii) Commission income and expense arising from brokerage activities

During the year, the Group earned brokerage commission from securities dealing of approximately HK$41,625,000 and HK$391,143,000 (2015: approximately HK$77,808,000 and HK$720,518,000) from fellow subsidiaries controlled by BOCI Group and Bank of China Limited and its subsidiaries respectively as a result of securities transactions executed in Hong Kong. In return, the Group paid approximately HK$4,793,000 and HK$149,278,000 (2015: approximately HK$7,081,000 and HK$267,545,000) as commission expenses.

As at 31 December 2016, the Group had a net payable of HK$241,322,000 from fellow subsidiaries in BOC International Holdings Limited Group and net payable of HK$439,923,000 from Bank of China Limited and its subsidiaries (2015: net payable of HK$125,554,000 from fellow subsidiaries in BOC International Holdings Limited and net payable of HK$2,363,986,000 from Bank of China Limited and its subsidiaries) as a result of the above transactions executed.

(iii) Underwriting and placement commission income and corporate finance commission expenses

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$140,525,000 from Bank of China Limited and its subsidiaries (2015: HK$7,406,000). These commissions earned were executed at the relevant market rates at the time of the transactions. As at 31 December 2016, the Group had an outstanding fee receivable of HK$5,233,000 from Bank of China Limited and its subsidiaries (2015: Nil).

During the year, the Group incurred corporate finance commission expenses of HK$3,923,000 (2015: Nil) and HK$1,485,000 (2015: Nil) from a fellow subsidiary of BOC International Holdings Limited and a subsidiary of Bank of China Limited respectively.

An underwriting and placement activity was also jointly conducted by the Group and one of its associates. As at 31 December 2016, the Group has outstanding fee receivable and payable from/to the associate, amounted to HK$1,992,000 (2015: Nil) and HK$5,559,000 (2015: HK$9,233,000) respectively. Fee income of HK$5,329,000 (2015: fee income of HK$8,330,000) was earned from the associate during the year.

29. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

(iv) Management fee income

The Group has agreements with fellow subsidiaries (BOCI Leveraged & Structured Finance Limited, BOCI Financial Products Limited and BOCI Private Wealth Management Limited), under which the Group provides management and administrative services in return for a fee which is agreed and reviewed on an annual basis. These agreements can be terminated by either party giving not less than one month's written notice.

(v) Management fee expense

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

(vi) Derivative and other financial instruments assets/liabilities

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

(vii) 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$90,960,000 and HK$587,000 (2015: HK$183,959,000 and HK$16,965,000) for the loans obtained from BOC International Holdings Limited and other subsidiaries of Bank of China Limited respectively.

29. RELATED PARTY TRANSACTIONS (continued)

(a) **Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)**

(viii) Deposits from customers, deposits and balances from banks 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 2016, the outstanding customer deposits amounted to HK$125,273,000 and HK$2,053,000 (2015: HK$294,625,000 and HK$2,040,000), the outstanding deposits and balances from banks amounted to HK$90,002,466 (2015: Nil) and interest expenses of HK$493,000 and HK$960,000 (2015: HK$1,137,000 and HK$5,079,000) 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 lease was 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 28 are with that fellow subsidiary.

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

During the year, the Group has realised/unrealised (loss)/gain on trading securities with BOC International Holdings Limited and a subsidiary of Bank of China Limited in the ordinary course of business.

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

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

(xii) Bank charges

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

(xiii) Key management compensation

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

29. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

(xiv) Held-to-maturity financial assets

In 2015, the Group purchased Certificate of Deposits issued by Bank of China Limited. These securities were purchased at prices and terms that were no more favourable than those contracted with other third party customers. As at 31 December 2016, there was no outstanding balance of Certificate of Deposit (2015: Nil) issued by Bank of China Limited, and no interest income (2015: HK$4,267,000) was earned during the year.

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

BOCI Group has established a charitable fund, namely 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$1,365 (2015: HK$12,522) to the Charity Fund. As at 31 December 2016, there is outstanding customer deposits amounting to HK$13,612,261 (2015: HK$13,610,881) placed by the Charity Fund.

30. 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.

(a) Impairment allowances on loans and receivables

Loans to customers

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

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

Fees and commission receivable

The Group reviews its fees and commission receivable to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any 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 income statement within other operating expenses. When a 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 income statement.

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

(a) Impairment allowances on loans and receivables (continued)

Based on the assessment made by management, there are overdue loans to customers during 2016 and 2015 and correspondingly impairment allowances were provided as at 31 December 2016 (2015: Nil). For accounts and other receivables, there are impaired receivables during 2016 and 2015 and accordingly impairment allowances were provided as at 31 December 2016 and 2015.

More details on the credit risk of the loans and receivables are included in notes 3.2 and 19.

(b) Fair value of derivatives and other financial instruments

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

(c) Held-to-maturity financial assets

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

(d) Income taxes

Determining income tax provisions involves significant judgement. There are many transactions and calculation for which the ultimate tax determination is uncertain. The Group evaluates tax implications of transactions and tax provisions are set up accordingly. Deferred tax assets are recognised for tax losses not yet used and temporary deductible difference arising from 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.

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting periods is as follows:

	2016 HK$	2015 HK$
NON-CURRENT ASSETS		
Plant and equipment	-	-
Investment in subsidiaries	1,722,792,046	1,722,792,046
Deferred income tax assets	25,257	30,879
Statutory deposits and other assets	2,043	-
Total non-current assets	1,722,819,346	1,722,822,925
CURRENT ASSETS		
Financial assets at fair value through profit or loss	3,327,068,204	3,497,950,591
Derivative financial instruments	80,625,475	29,894,308
Accounts and other receivables	208,696,151	315,261,928
Amounts due from the immediate holding company	550,000,000	681,195,827
Amounts due from a related company	1,992,387	-
Cash and balances with banks	1,932,252,080	2,004,225,622
Taxation recoverable	43,430,495	20,910,818
Total current assets	6,144,064,792	6,549,439,094
CURRENT LIABILITIES		
Subordinated loans from the immediate holding company	600,000,000	600,000,000
Amounts due to the immediate holding company	629,236,638	739,941,423
Amounts due to fellow subsidiaries	2,385,115,349	2,810,726,690
Amounts due to a related company	-	3,336,647
Accounts and other payables	303,565,429	650,431,442
Derivative financial instruments	147,152,260	161,923,877
Financial liabilities at fair value through profit or loss	60,281,252	222,085,462
Total current liabilities	4,125,350,928	5,188,445,541
NET CURRENT ASSETS	2,018,713,864	1,360,993,553
TOTAL ASSETS LESS CURRENT LIABILITIES	3,741,533,210	3,083,816,478

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	2016 HK$	2015 HK$
TOTAL ASSETS LESS CURRENT LIABILITIES	3,741,533,210	3,083,816,478
NON-CURRENT LIABILITIES		
Accounts and other payables	18,576,139	36,860,224
Total non-current liabilities	18,576,139	36,860,224
Net assets	3,722,957,071	3,046,956,254
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	2,000,000,000	2,000,000,000
Retained earnings	1,722,957,071	1,046,956,254
Total equity	3,722,957,071	3,046,956,254

Leung Yiu Kei
Director

Bian Fang
Director

31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserve is as follows:

	Share capital HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2015	2,000,000,000	1,269,478,122	3,269,478,122
Loss for the year	-	(222,521,868)	(222,521,868)
Total comprehensive income for the year	-	(222,521,868)	(222,521,868)
Balance at 31 December 2015	2,000,000,000	1,046,956,254	3,046,956,254
Balance at 1 January 2016	2,000,000,000	1,046,956,254	3,046,956,254
Profit for the year	-	676,000,817	676,000,817
Total comprehensive income for the year	-	676,000,817	676,000,817
Balance at 31 December 2016	2,000,000,000	1,722,957,071	3,722,957,071