

BOCI ASIA LIMITED
中銀國際亞洲有限公司

2014 INTERIM REPORT

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONDENSED CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Unaudited Six months ended 30 June	
	Note	2014 HK\$	2013 HK\$
Turnover	4	1,651,074,024	1,105,826,884
Other income		100,509,070	100,412,909
Total income		<u>1,751,583,094</u>	<u>1,206,239,793</u>
Commission and clearing expenses		(316,985,185)	(244,372,582)
Staff costs		(218,407,441)	(223,995,710)
Operating lease rental in respect of leased premises		(29,823,086)	(26,622,492)
Depreciation		(1,228,031)	(1,760,472)
Information technology and communications expenses		(57,040,783)	(54,470,748)
Management fee to related companies		(212,081,386)	(175,546,893)
Other operating expenses		(55,616,894)	(44,804,809)
		<u>(891,182,806)</u>	<u>(771,573,706)</u>
Finance costs		(117,486,087)	(75,301,670)
Profit before taxation		<u>742,914,201</u>	<u>359,364,417</u>
Income tax expense	5	(112,233,848)	(49,846,432)
Profit after taxation for the period		<u>630,680,353</u>	<u>309,517,985</u>
Profit attributable to: Equity holders of the Company		<u>630,680,353</u>	<u>309,517,985</u>

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited Six months ended 30 June	
	2014 HK\$	2013 HK\$
Profit after taxation for the period	630,680,353	309,517,985
Total comprehensive income for the period	<u>630,680,353</u>	<u>309,517,985</u>
Attributable to: Equity holders of the Company	<u>630,680,353</u>	<u>309,517,985</u>

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	Note	Unaudited 30 June 2014 HK\$	Audited 31 December 2013 HK\$
NON-CURRENT ASSETS			
Plant and equipment	6	3,070,356	4,302,820
Intangible assets		49,715,218	49,715,218
Available-for-sale financial assets	7	355,000	355,000
Statutory deposits and other assets		12,187,888	14,449,575
Deferred income tax assets		1,058,874	970,510
Total non-current assets		66,387,336	69,793,123
CURRENT ASSETS			
Financial assets at fair value through profit or loss	8	1,731,790,704	995,992,670
Held-to-maturity financial assets	9	2,789,732,417	240,039,978
Derivative financial instruments	10	137,946,177	104,115,581
Loans and receivables	11	32,859,059,485	27,330,683,952
Amounts due from the immediate holding company	13	1,234,424,506	1,904,146,027
Amounts due from fellow subsidiaries	12	317,745,075	-
Cash and balances with banks		9,341,959,821	8,460,290,387
Taxation recoverable		-	33,203,843
Total current assets		48,412,658,185	39,068,472,438
CURRENT LIABILITIES			
Bank loans and other borrowings-unsecured		2,265,208,155	1,500,095,570
Subordinated loans from the immediate holding company	13	2,285,000,000	2,285,000,000
Amounts due to the immediate holding company	13	10,500,841,061	9,075,128,782
Amounts due to fellow subsidiaries	12	1,187,972,287	260,902,371
Accounts and other payables	14	14,156,029,846	9,711,154,058
Deposits from customers	15	11,760,750,990	10,276,833,647
Derivative financial instruments	10	182,816,127	174,990,983
Financial liabilities at fair value through profit or loss	16	387,051,480	791,540,114
Taxation payable		178,152,314	55,842,114
Total current liabilities		42,903,822,260	34,131,487,639
NET CURRENT ASSETS		5,508,835,925	4,936,984,799
TOTAL ASSETS LESS CURRENT LIABILITIES		5,575,223,261	5,006,777,922
NON-CURRENT LIABILITIES			
Deferred income tax liabilities		746,133	764,184
Accounts and other payables	14	-	62,216,963
Total non-current liabilities		746,133	62,981,147
Net assets		5,574,477,128	4,943,796,775

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AT 30 JUNE 2014

		Unaudited 30 June 2014 HK\$	Audited 31 December 2013 HK\$
	Note		
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	17	2,000,000,000	2,000,000,000
Reserve for fair value change of available-for-sale financial assets		15,000	15,000
Retained earnings		3,574,462,128	2,943,781,775
Total equity		<u>5,574,477,128</u>	<u>4,943,796,775</u>

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited			
	Share capital HK\$	Reserve for fair value change of available-for-sale financial assets HK\$	Retained earnings HK\$	Total HK\$
Balance at 1 January 2014	2,000,000,000	15,000	2,943,781,775	4,943,796,775
Comprehensive income for the period	-	-	630,680,353	630,680,353
Balance at 30 June 2014	<u>2,000,000,000</u>	<u>15,000</u>	<u>3,574,462,128</u>	<u>5,574,477,128</u>
Balance at 1 January 2013	2,000,000,000	15,000	2,195,870,273	4,195,885,273
Comprehensive income for the period	-	-	309,517,985	309,517,985
Balance at 30 June 2013	<u>2,000,000,000</u>	<u>15,000</u>	<u>2,505,388,258</u>	<u>4,505,403,258</u>

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Unaudited Six months ended 30 June	
	2014 HK\$	2013 HK\$
Net cash inflow from operating activities	3,419,406,125	741,113,468
Net cash (outflow)/ inflow from investing activities	(2,546,363,359)	1,390,868
	<hr/>	<hr/>
Net increase in cash and cash equivalents	873,042,766	742,504,336
Cash and cash equivalents at 1 January	8,446,346,953	5,901,568,894
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	<u>9,319,389,719</u>	<u>6,644,073,230</u>
 Analysis of balance of cash and cash equivalents		
Bank and cash balance with original maturity within three months	<u>9,319,389,719</u>	<u>6,644,073,230</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1 Basis of preparation

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

2 Accounting policies

The accounting policies and methods of computation used in the preparation of the unaudited interim report are consistent with those used in the Group’s consolidated financial statements for the year ended 31 December 2013 and should be read in conjunction with the Group’s consolidated financial statements for 2013.

3 Segment information

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

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

The main business segments of the Group are as follows:

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

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

3 Segment information (Continued)

The Group's segment results for six months ended 30 June 2014 are as follows:

Unaudited

	Investments banking HK\$'000	Brokerage & wealth management HK\$'000	Private banking HK\$'000	Fixed income and equity market HK\$'000	Leveraged & structured finance HK\$'000	Treasury and others HK\$'000	Elimination HK\$'000	Total HK\$'000
<u>Six months ended 30 June 2014</u>								
Total revenue – external	79,460	1,189,350	273,943	147,501	11,876	49,453	-	1,751,583
Total revenue – inter-segment	-	-	23,958	-	-	65,244	(89,202)	-
Commission and clearing expense	(5)	(309,484)	(7,141)	(25)	(38)	(292)	-	(316,985)
Depreciation	(78)	(1,040)	(70)	(31)	-	(9)	-	(1,228)
Other operating expenses	(71,748)	(166,013)	(79,722)	(41,953)	(6,340)	4,888	-	(360,888)
Finance costs – external	-	(9,522)	(22,976)	(3)	-	(84,985)	-	(117,486)
Finance costs – inter-segment	-	-	(63,916)	-	(1,328)	(23,958)	89,202	-
Segment results	7,629	703,291	124,076	105,489	4,170	10,341	-	954,996
Unallocated cost								(212,082)
Operating profits								742,914
<u>Six months ended 30 June 2013</u>								
Total revenue – external	81,164	613,982	293,410	160,355	11,000	46,327	-	1,206,238
Total revenue – inter-segment	-	-	25,871	-	-	40,436	(66,307)	-
Commission and clearing expense	(40)	(238,688)	(5,256)	(90)	(73)	(226)	-	(244,373)
Depreciation	(110)	(1,349)	(176)	(80)	(35)	(10)	-	(1,760)
Other operating expenses	(70,911)	(150,027)	(71,014)	(46,704)	(4,276)	(6,961)	-	(349,893)
Finance costs – external	-	(8,947)	(34,412)	(2)	(1)	(31,939)	-	(75,301)
Finance costs – inter-segment	-	-	(40,248)	-	(188)	(25,871)	66,307	-
Segment results	10,103	214,971	168,175	113,479	6,427	21,756	-	534,911
Unallocated cost								(175,547)
Operating profits								359,364

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

4 Turnover

	Unaudited Six month ended 30 June	
	2014 HK\$	2013 HK\$
Fees and commission income	874,384,956	801,509,815
Net realised/unrealised gain on financial assets and financial liabilities	359,838,346	8,476,595
Interest income	383,611,561	272,391,027
Dividend income from listed equities held for trading	33,239,161	23,449,447
	<u>1,651,074,024</u>	<u>1,105,826,884</u>

5 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (first half of 2013: 16.5%) on the estimated assessable profit for the first half of 2014. The amount of taxation charged to the condensed consolidated income statement represents:

	Unaudited Six months ended 30 June	
	2014 HK\$	2013 HK\$
Current income tax:		
- Hong Kong profits tax	111,117,510	45,301,531
- Overseas taxation	1,222,752	706,088
Deferred income tax (credit)/ expense	(106,414)	3,838,813
	<u>112,233,848</u>	<u>49,846,432</u>

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

6 Plant and equipment

During the six months ended 30 June 2014, the Group did not spend (first half of 2013: Nil) on the acquisitions of plant and equipment.

7 Available-for-sale financial assets

	Unaudited At 30 June 2014 HK\$	Audited At 31 December 2013 HK\$
Non-current assets, at fair value		
- Club debentures, unlisted	355,000	355,000
	<u>355,000</u>	<u>355,000</u>

8 Financial assets at fair value through profit or loss

	Unaudited At 30 June 2014 HK\$	Audited At 31 December 2013 HK\$
Trading securities, at fair value		
- Equity securities, listed in Hong Kong	1,731,790,704	995,992,670
	<u>1,731,790,704</u>	<u>995,992,670</u>

9 Held-to-maturity financial assets

	Unaudited At 30 June 2014 HK\$	Audited At 31 December 2013 HK\$
Certificates of deposits, unlisted	2,789,732,417	240,039,978
	<u>2,789,732,417</u>	<u>240,039,978</u>
Analysed by type of issuers as follows:		
Banks, unrated	2,789,732,417	240,039,978
	<u>2,789,732,417</u>	<u>240,039,978</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

10 Derivative financial instruments

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

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

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

10 Derivative financial instruments (Continued)

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

	Notional amount HK\$'000	Unaudited At 30 June 2014	
		Assets HK\$	Liabilities HK\$
Exchange rate contracts	9,976,108	7,591,391	5,673,251
Equity contracts	6,138,858	130,354,786	177,142,876
		137,946,177	182,816,127
		137,946,177	182,816,127
	Notional amount HK\$'000	Audited At 31 December 2013	
		Assets HK\$	Liabilities HK\$
Exchange rate contracts	8,359,567	6,937,156	6,212,087
Equity contracts	4,328,296	97,178,425	168,778,896
		104,115,581	174,990,983
		104,115,581	174,990,983

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

11 Loans and receivables

	Unaudited At 30 June 2014 HK\$	Audited At 31 December 2013 HK\$
Accounts receivable from dealing in securities	11,728,655,920	8,702,859,695
Accounts receivable from securities trading	81,393,981	612,158,690
Loans to customers	20,833,836,267	17,831,644,068
Fees and commission receivable	179,235,835	142,177,583
Deposits, prepayments and other receivables	35,937,482	41,843,916
	<u>32,859,059,485</u>	<u>27,330,683,952</u>
Gross	<u>32,859,059,485</u>	<u>27,330,683,952</u>

Loans to customers, which include receivables from margin clients of approximately HK\$14,502 million (end of 2013: approximately HK\$12,659 million), were secured by listed securities and a cash deposit. The Group is permitted to sell or re-pledge such collateral.

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

12 Amounts due from/to fellow subsidiaries

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

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

As at 30 June 2014, the Group has borrowed equity securities with market value of HK\$291,209,369 (end of 2013: HK\$295,377,509) from a fellow subsidiary and placed a cash collateral of HK\$289,164,738 (end of 2013: HK\$240,073,945) and lent equity securities with market value of HK\$1,250,194,015 (end of 2013: HK\$519,722,258) to a fellow subsidiary and received a cash collateral of HK\$1,186,549,545 (end of 2013: HK\$490,632,310).

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

13 Amounts due from/to the immediate holding company/subordinated loans from the immediate holding company

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

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

Subordinated loans were borrowed from the immediate holding company of HK\$2,285,000,000 (end of 2013: HK\$2,285,000,000), which are unsecured and bear interest at commercial interest rates.

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

14 Accounts and other payables

	Unaudited At 30 June 2014 HK\$	Audited At 31 December 2013 HK\$
Accounts payable from dealing in securities	13,206,371,147	9,131,996,895
Accounts payable from securities trading	54,937	219,103
Discretionary bonus payable	181,045,381	344,987,480
Others payables and accrued expenses	752,343,733	279,952,895
Amount due to an associate company of BOCI Group	16,214,648	16,214,648
	<u>14,156,029,846</u>	<u>9,773,371,021</u>

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

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

15 Deposits from customers

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

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NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

16 Financial liabilities at fair value through profit or loss

	Unaudited At 30 June 2014 HK\$	Audited At 31 December 2013 HK\$
Trading securities, at fair value - Equity securities, listed in Hong Kong	387,051,480	791,540,114

17 Share capital

	Unaudited At 30 June 2014 HK\$	Audited At 31 December 2013 HK\$
Issued and fully paid: 200,000 (2013: 200,000) ordinary shares	2,000,000,000	2,000,000,000

18 Contingent liabilities and commitments

Commitments under operating leases

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

	Unaudited At 30 June 2014 HK\$	Audited At 31 December 2013 HK\$
Land and buildings:		
Less than one year	38,740,457	38,947,585
Between one and five years	32,029,728	50,273,596
	<u>70,770,185</u>	<u>89,221,181</u>

Underwriting commitment

As at 30 June 2014, the Group has a non-cancellable equity underwriting commitment of HK\$1,328,880,076 (end of 2013: HK\$214,929,183) which expires within a month after the end of the reporting period.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

19 Material related-party transactions

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

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

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

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Condensed consolidated income statement items:		
Interest income from bank deposits & others	82,211	36,839
Brokerage commission	241,528	248,931
Corporate finance and loan syndication fees	17,875	-
Dividend income	5,987	999
Underwriting and placement commission	4,527	6,881
Interest expense from loans and customer deposits	(83,218)	(41,507)
Commission expenses arising from brokerage activities	(92,024)	(84,986)
Operating lease rental in respect of leased premises	(26,183)	(23,393)
	<u> </u>	<u> </u>