

**BOCI ASIA LIMITED**  
**中銀國際亞洲有限公司**

**2018 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 2018**

		Unaudited Six months ended 30 June	
	Note	2018 HK\$	2017 HK\$
Revenue	4a	1,720,377,159	1,294,549,660
Trading gain, net	4b	97,149,606	577,360,767
Other income		101,282,432	112,942,390
Total income		<u>1,918,809,197</u>	<u>1,984,852,817</u>
Commission and clearing expenses		(421,221,782)	(336,664,460)
Staff costs		(206,585,494)	(213,094,206)
Operating lease rental in respect of leased premises		(30,023,682)	(31,157,938)
Depreciation		(7,130)	(30,060)
Information technology and communications expenses		(64,257,830)	(60,460,200)
Management fees to related companies		(301,064,186)	(256,962,648)
Other operating expenses		(85,022,699)	(49,149,526)
		<u>(1,108,182,803)</u>	<u>(947,519,038)</u>
Finance costs		(135,926,753)	(57,433,253)
Profit before taxation		<u>674,699,641</u>	<u>979,900,526</u>
Income tax expense	5	(66,789,073)	(118,894,171)
Profit after taxation for the period		<u>607,910,568</u>	<u>861,006,355</u>
Profit attributable to: Equity holders of the Company		<u>607,910,568</u>	<u>861,006,355</u>

**BOCI ASIA LIMITED**  
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**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Unaudited Six months ended 30 June	
	2018 HK\$	2017 HK\$
Profit after taxation for the period	607,910,568	861,006,355
Total comprehensive income for the period	<u>607,910,568</u>	<u>861,006,355</u>
Attributable to: Equity holders of the Company	<u>607,910,568</u>	<u>861,006,355</u>

**BOCI ASIA LIMITED**  
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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 JUNE 2018**

	Note	Unaudited 30 June 2018 HK\$	Audited 31 December 2017 HK\$
<b>NON-CURRENT ASSETS</b>			
Plant and equipment	6	3,565	10,695
Intangible assets		49,715,218	49,715,218
Available-for-sale financial assets	7	-	355,000
Financial assets at fair value through other comprehensive income	8	354,932	-
Statutory deposits and other assets		212,237,910	109,818,829
Deferred income tax assets		1,184,534	1,127,528
Total non-current assets		263,496,159	161,027,270
<b>CURRENT ASSETS</b>			
Financial assets at fair value through profit or loss	9	2,567,705,202	1,770,809,600
Held-to-maturity financial assets	10	-	149,665,079
Debt instruments at amortised cost	11	149,657,963	-
Derivative financial instruments	12	205,425,571	377,988,729
Loans and receivables	13	28,105,487,971	25,484,572,569
Amounts due from the immediate holding company	16	1,922,720,846	1,282,332,331
Amounts due from fellow subsidiaries	15	2,354,160	-
Amounts due from a related company	16	43,452,052	31,570,338
Cash and balances with banks	14	8,713,841,454	8,398,565,436
Taxation recoverable		-	4,897,800
Total current assets		41,710,645,219	37,500,401,882
<b>CURRENT LIABILITIES</b>			
Bank loans and other borrowings-unsecured		1,800,491,280	-
Subordinated loans from the immediate holding company	16	2,500,000,000	2,500,000,000
Amounts due to the immediate holding company	16	11,148,296,502	9,946,729,148
Amounts due to fellow subsidiaries	15	1,741,689	2,249,932
Amounts due to a related company	16	5,917,590	5,991,700
Accounts and other payables	17	7,297,745,997	7,895,275,277
Deposits from customers	18	9,260,509,280	7,824,397,622
Derivative financial instruments	12	320,375,168	541,060,990
Financial liabilities at fair value through profit or loss	19	26,323,415	19,100,250
Taxation payable		195,049,984	116,293,094
Total current liabilities		32,556,450,905	28,851,098,013
<b>NET CURRENT ASSETS</b>		9,154,194,314	8,649,303,869
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		9,417,690,473	8,810,331,139

**BOCI ASIA LIMITED**  
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**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**  
**AT 30 JUNE 2018**

	Note	Unaudited 30 June 2018 HK\$	Audited 31 December 2017 HK\$
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		9,417,690,473	8,810,331,139
		-----	-----
<b>NON-CURRENT LIABILITIES</b>			
Accounts and other payables	17	41,567,753	41,567,753
		-----	-----
Total non-current liabilities		41,567,753	41,567,753
		-----	-----
<b>Net assets</b>		9,376,122,720	8,768,763,386
		=====	=====
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders			
Share capital	20	2,000,000,000	2,000,000,000
Reserve for fair value change of available-for-sale financial assets		-	15,000
Reserve for fair value change of financial assets at fair value through other comprehensive income		15,000	-
Retained earnings		7,376,107,720	6,768,748,386
		-----	-----
Total equity		9,376,122,720	8,768,763,386
		=====	=====

**BOCI ASIA LIMITED**  
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Unaudited				
	Share capital HK\$	Reserve for fair value change of available-for-sale financial assets	Reserve for fair value change of financial assets at fair value through other comprehensive income HK\$	Retained earnings HK\$	Total HK\$
Balance at 1 January 2018 under HKAS 39	2,000,000,000	15,000	-	6,768,748,386	8,768,763,386
On adoption of HKFRS 9	-	(15,000)	15,000	(551,234)	(551,234)
	<u>2,000,000,000</u>	<u>15,000</u>	<u>15,000</u>	<u>6,768,197,152</u>	<u>8,768,212,152</u>
Balance at 1 January 2018 under HKFRS 9	2,000,000,000	-	15,000	6,768,197,152	8,768,212,152
Comprehensive income for the period	-	-	-	607,910,568	607,910,568
	<u>2,000,000,000</u>	<u>-</u>	<u>15,000</u>	<u>7,376,107,720</u>	<u>9,376,122,720</u>
Balance at 30 June 2018	<u>2,000,000,000</u>	<u>-</u>	<u>15,000</u>	<u>7,376,107,720</u>	<u>9,376,122,720</u>
Balance at 1 January 2017	2,000,000,000	15,000	-	5,503,489,323	7,503,504,323
Comprehensive income for the period	-	-	-	861,006,355	861,006,355
	<u>2,000,000,000</u>	<u>15,000</u>	<u>-</u>	<u>6,364,495,678</u>	<u>8,364,510,678</u>
Balance at 30 June 2017	<u>2,000,000,000</u>	<u>15,000</u>	<u>-</u>	<u>6,364,495,678</u>	<u>8,364,510,678</u>

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**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2018**

	Unaudited Six months ended 30 June	
	2018 HK\$	2017 HK\$
Net cash outflow from operating activities	(622,598,881)	(1,319,885,652)
Net cash inflow from investing activities	578,784	366,247
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(622,020,097)	(1,319,519,405)
Cash and cash equivalents at 1 January	7,414,541,705	6,420,003,112
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	<u>6,792,521,608</u>	<u>5,100,483,707</u>
 Analysis of balance of cash and cash equivalents		
Bank and cash balance with original maturity within three months	<u>6,792,521,608</u>	<u>5,100,483,707</u>

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

**1 Basis of preparation**

The unaudited interim report of BOCI Asia Limited and its subsidiaries (“the Group”) is 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 2017, except for the changes in accounting policies described in note 2.1 and should be read in conjunction with the Group’s consolidated financial statements for 2017.

**2.1 Changes in accounting policies and disclosures**

In this unaudited interim report, the Group applied HKFRS 9, effective for annual periods beginning on or after 1 January 2018, for the first time.

HKFRS 9 Financial Instruments

HKFRS 9 replaces HKAS 39 for annual periods on or after 1 January 2018. The Group has not restated comparative information for 2017 for financial instruments in the scope of HKFRS 9. Therefore, the comparative information for 2017 is reported under HKAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of HKFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed in Note 2.2.

(a) Changes to classification and measurement

To determine their classification and measurement category, HKFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group’s business model for managing the assets and the instruments’ contractual cash flow characteristics.

The HKAS 39 measurement categories of financial assets (fair value through profit or loss (“FVPL”), available-for-sale (“AFS”), held-to-maturity and loans and receivables) have been replaced by:

- Debt instruments at amortised cost
- Debt instruments at fair value through other comprehensive income (“FVOCI”), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under HKAS 39, except for the treatment of gains or losses arising from the Group’s own credit risk relating to financial liabilities designated at FVPL. Such movements are presented in consolidated other comprehensive income with no subsequent reclassification to the consolidated income statement.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.



**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

**2.1 Changes in accounting policies and disclosures (continued)**

HKFRS 9 Financial Instruments (continued)

(a) Changes to classification and measurement (continued)

From 1 January 2018, the Group only measures cash and balances with banks, loans and receivables, debt instruments at amortised cost and other assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The SPPI test

As a second step of its classification process the Group assesses the contractual terms to identify whether they meet the SPPI test.

“Principal” for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

**2.1 Changes in accounting policies and disclosures (continued)**

HKFRS 9 Financial Instruments (continued)

(a) Changes to classification and measurement (continued)

The SPPI test (continued)

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

(b) Changes to the impairment calculation

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss (“ECL”) model either on a twelve-month basis or a lifetime basis. ECL will be assessed using an approach which classifies these financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile in each instance.

- A financial asset is classified under Stage 1 if it was not credit-impaired upon origination and there has not been a significant increase in its credit risk since inception. A provision for twelve-month ECL is required.
- A financial asset is classified under Stage 2 if it was not credit-impaired upon origination but has since suffered a significant increase in credit risk. A provision for life-time ECL is required.
- A financial asset which has been credit-impaired with objective evidence of default is classified under Stage 3. The assessed ECL is expected to be unchanged from the existing individual allowances taken for such assets.

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**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

**2.2 Transition disclosures**

The following tables set out the impact of adopting HKFRS 9 on the consolidated statement of financial position, and retained earnings including the effect of replacing HKAS 39's incurred loss calculations with HKFRS 9's ECLs.

A reconciliation between the carrying amounts under HKAS 39 to the balances reported under HKFRS 9 as of 1 January 2018 is as follows:

HK\$	HKAS 39			Re- classification	Re- measurement	HKFRS 9	
	Ref	Category	Amount			Amount	Category
<b>Financial assets</b>							
Cash and balances with banks		L&R <sup>1</sup>	8,398,565,436	-	(103,247)	8,398,462,189	AC <sup>2</sup>
Financial assets at fair value through profit or loss		FVPL <sup>3</sup>	1,770,809,600	-	-	1,770,809,600	FVPL
Derivative financial instruments		FVPL	377,988,729	-	-	377,988,729	FVPL
Amounts due from the immediate holding company		L&R	1,282,332,331	-	-	1,282,332,331	AC
Amounts due from a related company		L&R	31,570,338	-	-	31,570,338	AC
Loans and receivables		L&R	25,484,572,569	-	(550,311)	25,484,022,258	AC
Available-for-sale financial assets		AFS <sup>4</sup>	355,000	(355,000)	-	-	-
<i>To: Financial assets at fair value through other comprehensive income</i>	A			(355,000)			
Financial assets at fair value through other comprehensive income			-	355,000	(42)	354,958	FVOCI <sup>5</sup>
<i>From: Available-for-sale financial assets</i>	A			355,000			
Held-to-maturity financial assets		HTM <sup>6</sup>	149,665,079	(149,665,079)	-	-	-
<i>To: Debt instruments at amortised cost</i>	B			(149,665,079)			
Debt instruments at amortised cost			-	149,665,079	(12,898)	149,652,181	AC
<i>From: Held-to-maturity financial assets</i>	B			149,665,079			
Other assets		L&R	159,544,742	-	-	159,544,742	AC
<b>Non-financial assets</b>							
Tax recoverable			4,897,800	-	-	4,897,800	
Deferred tax assets			1,127,528	-	115,264	1,242,792	
<b>Total assets</b>			<b>37,661,429,152</b>	<b>-</b>	<b>(551,234)</b>	<b>37,660,877,918</b>	

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**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

**2.2 Transition disclosures (continued)**

HK\$	HKAS 39			Re- classification	Re- measurement	HKFRS 9	
	Ref	Category	Amount			Amount	Category
<b>Financial liabilities</b>							
Deposits from customers		AC	7,824,397,622	-	-	7,824,397,622	AC
Subordinated loans from the immediate holding company		AC	2,500,000,000	-	-	2,500,000,000	AC
Amounts due to the immediate holding company		AC	9,946,729,148	-	-	9,946,729,148	AC
Amounts due to fellow subsidiaries		AC	2,249,932	-	-	2,249,932	AC
Amounts due to a related company		AC	5,991,700	-	-	5,991,700	AC
Financial liabilities at fair value through profit or loss		FVPL	19,100,250	-	-	19,100,250	FVPL
Derivative financial instruments		FVPL	541,060,990	-	-	541,060,990	FVPL
Accounts and other payables		AC	7,936,843,030	-	-	7,936,843,030	AC
<b>Non-financial assets</b>							
Tax payable		AC	116,293,094	-	-	116,293,094	AC
<b>Total liabilities</b>			<b>28,892,665,766</b>	<b>-</b>	<b>-</b>	<b>28,892,665,766</b>	

<sup>1</sup>L&R: Loans and receivables

<sup>2</sup>AC: Amortised cost

<sup>3</sup>FVPL: Fair value through profit and loss

<sup>4</sup>AFS: Available-for-sale

<sup>5</sup>FVOCI: Fair value through other comprehensive income

<sup>6</sup>HTM: Held-to-maturity

- A As of 1 January 2018, the Group assessed its liquidity portfolio which had previously been classified as available-for-sale financial assets. The Group concluded that, these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Group has classified these investments as financial assets at fair value through other comprehensive income.
- B As of 1 January 2018, the Group did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

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**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

**2.2 Transition disclosures (continued)**

The impact of transition to HKFRS 9 on reserves and retained earnings is, as follows:

HK\$	Reserves and retained earnings
<u>Retained earnings</u>	
Closing balance under HKAS 39 (31 December 2017)	6,768,748,386
Re-measurement adjustments in relation to adopting HKFRS 9	(666,498)
Deferred tax in relation to the above	115,264
	<hr/>
Opening balance under HKFRS 9 (1 January 2018)	6,768,197,152
	<hr/> <hr/>
Total change in equity due to adopting HKFRS 9	(551,234)
	<hr/> <hr/>

The following table reconciles the aggregate opening loss provision allowances under HKAS 39 to the ECL allowances under HKFRS 9.

HK\$	Loss provision under HKAS 39 at 31 December 2017	Re-measurement	ECL under HKFRS 9 at 1 January 2018
Impairment allowance for:			
Loans and receivables	43,481,966	550,311	44,032,277
Available-for-sale financial assets per HKAS 39/ financial assets at fair value through other comprehensive income under HKFRS 9	-	42	42
Held-to-maturity financial assets per HKAS 39/ debt instruments at amortised cost under HKFRS 9	-	12,898	12,898
Cash and balances with banks	-	103,247	103,247
	<hr/>	<hr/>	<hr/>
	43,481,966	666,498	44,148,464
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

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

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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 2018 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 2018</u>								
Total income – external	84,283	1,415,520	177,781	189,269	9,168	42,788	-	1,918,809
Total income – inter-segment	-	-	10,547	-	-	30,366	(40,913)	-
Commission and clearing expense	(389)	(395,621)	(8,032)	(16,830)	(3)	(347)	-	(421,222)
Depreciation	-	(7)	-	-	-	-	-	(7)
Other operating expenses	(68,381)	(205,129)	(74,750)	(39,832)	(3,075)	5,278	-	(385,889)
Finance costs – external	-	(3,513)	(9,707)	(2,185)	(4)	(120,518)	-	(135,927)
Finance costs – inter-segment	-	-	(30,370)	-	4	(10,547)	40,913	-
Segment results	15,513	811,250	65,469	130,422	6,090	(52,980)	-	975,764
Unallocated cost								(301,064)
Operating profits								<u>674,700</u>
<u>Six months ended 30 June 2017</u>								
Total income – external	105,370	1,506,446	172,839	140,913	37,775	21,510	-	1,984,853
Total income – inter-segment	-	-	10,673	-	-	21,912	(32,585)	-
Commission and clearing expense	(25)	(321,688)	(4,246)	(10,413)	(2)	(290)	-	(336,664)
Depreciation	-	(30)	-	-	-	-	-	(30)
Other operating expenses	(71,902)	(170,782)	(62,323)	(56,671)	(5,087)	12,903	-	(353,862)
Finance costs – external	-	(1,930)	(9,896)	(944)	-	(44,663)	-	(57,433)
Finance costs – inter-segment	-	-	(21,912)	-	-	(10,673)	32,585	-
Segment results	33,443	1,012,016	85,135	72,885	32,686	699	-	1,236,864
Unallocated cost								(256,963)
Operating profits								<u>979,901</u>

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**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

**4 Revenue and trading gain, net**

**(a) Revenue**

	Unaudited Six month ended 30 June	
	2018 HK\$	2017 HK\$
Brokerage commission	870,768,042	610,965,381
Underwriting and placement commission	202,335,841	140,133,594
Corporate finance and loan syndication fees	67,305,248	128,195,780
Interest income from bank deposits and loans to customers	550,549,974	373,015,771
Dividend income from listed equities held for trading	29,418,054	42,239,134
	<u>1,720,377,159</u>	<u>1,294,549,660</u>
	<u>1,720,377,159</u>	<u>1,294,549,660</u>

**(b) Trading gain, net**

	2018 HK\$	2017 HK\$
Net realised/unrealised gain/(loss) on financial assets and financial liabilities		
- Equity securities	(134,673,128)	623,817,190
- Debt securities	42,482,594	78,685,094
- Derivative financial instruments	189,340,140	(125,141,517)
	<u>97,149,606</u>	<u>577,360,767</u>
	<u>97,149,606</u>	<u>577,360,767</u>



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**5 Income tax expense**

Hong Kong profits tax has been provided at the rate of 16.5% (first half of 2017: 16.5%) on the estimated assessable profit for the first half of the years. The amount of taxation charged to the condensed consolidated income statement represents:

	Unaudited Six months ended 30 June	
	2018 HK\$	2017 HK\$
Current income tax:		
- Hong Kong profits tax	65,501,225	118,135,929
- Overseas taxation	1,229,591	629,702
Deferred income tax credit	58,257	128,540
	66,789,073	118,894,171
	66,789,073	118,894,171

**6 Plant and equipment**

During the six months ended 30 June 2018, the Group did not spend (first half of 2017: Nil) on the acquisitions of plant and equipment.

**7 Available-for-sale financial assets**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Non-current assets, at fair value		
- Club debentures, unlisted	-	355,000
	-	355,000

**8 Financial assets at fair value through other comprehensive income**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Non-current assets, at fair value		
- Club debentures, unlisted	355,000	-
Less: Allowance for impairment losses	(68)	-
	354,932	-
	354,932	-

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**9 Financial assets at fair value through profit or loss**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Trading securities, at fair value		
- Equity securities, listed in Hong Kong	2,567,705,202	1,770,809,600

**10 Held-to-maturity financial assets**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Hong Kong Exchange Fund Bills, unlisted	-	149,665,079
Analysed by type of issuers as follows:		
Sovereigns	-	149,665,079

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**11 Debt instruments at amortised cost**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Hong Kong Exchange Fund Bills, unlisted	149,666,572	-
Less: Allowance for impairment losses	(8,609)	-
	<u>149,657,963</u>	<u>-</u>
Analysed by type of issuers as follows:		
Sovereigns	149,666,572	-
Less: Allowance for impairment losses	(8,609)	-
	<u>149,657,963</u>	<u>-</u>

**12 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**

**12 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 2018	
		Assets HK\$	Liabilities HK\$
Exchange rate contracts	3,506,164	6,447,291	15,438,975
Equity contracts	14,904,821	196,930,658	302,888,571
Interest rate contracts	80,000	2,047,622	2,047,622
		205,425,571	320,375,168
		Audited At 31 December 2017	
	Notional amount HK\$'000	Assets HK\$	Liabilities HK\$
Exchange rate contracts	2,369,177	8,119,663	3,558,094
Equity contracts	18,579,160	368,685,768	536,319,598
Interest rate contracts	80,000	1,183,298	1,183,298
		377,988,729	541,060,990

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**13 Loans and receivables**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Accounts receivable from dealing in securities	6,938,760,026	7,387,331,571
Loans to customers	20,945,600,874	17,949,818,483
Fees and commission receivable	115,167,067	66,934,201
Deposits, prepayments and other receivables	150,039,675	123,970,280
	<hr/>	<hr/>
Gross	28,149,567,642	25,528,054,535
Impairment allowance (under HKAS 39)		
- loans to customers	-	(1,776,997)
- fees and commission receivable	-	(41,704,969)
Impairment allowance (stage 1 under HKFRS 9)		
- loans to customers	(5,072)	-
- fees and commission receivable	(472,282)	-
Impairment allowance (stage 3 under HKFRS 9)		
- loans to customers	(1,784,379)	-
- fees and commission receivable	(41,817,938)	-
	<hr/>	<hr/>
	<u>28,105,487,971</u>	<u>25,484,572,569</u>

Loans to customers, which include receivables from margin clients of approximately HK\$16,437 million (end of 2017: approximately HK\$13,768 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.

**14 Cash and balances with banks**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Cash at bank and in hand	2,204,391,478	2,794,961,248
Short-term bank deposits and placements		
- with original maturity within three months	4,319,824,553	4,502,193,096
- with original maturity over three months	1,791,001,331	432,012,991
Placements with banks		
- with original maturity within three months	268,305,577	117,387,361
- with original maturity over three months	130,448,258	552,010,740
Less: Allowance for impairment losses	(129,743)	-
	<hr/>	<hr/>
	<u>8,713,841,454</u>	<u>8,398,565,436</u>

**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**

**14 Cash and balances with banks (continued)**

The Group maintains trust accounts with authorised institutions and other financial institutions as part of its normal business transactions. At 30 June 2018, trust accounts with authorised institutions and other financial institutions not otherwise dealt with in the condensed consolidated financial statements amounted to approximately HK\$35,527 million (end of 2017: HK\$36,725 million).

**15 Amounts due from/to fellow subsidiaries**

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

During the period, 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 31 December 2017, the Group lent equity securities, which were all classified as financial assets at fair value through profit or loss, with fair value of HK\$2,543,988,269 to the fellow subsidiary and received cash collateral of HK\$2,545,383,679. The Group has also borrowed equity securities, which were all classified as financial liabilities at fair value through profit or loss, with fair value of HK\$129,402,379 from the fellow subsidiary and placed cash collateral of HK\$160,317,332 to the fellow subsidiary.

**16 Amounts due from/to the immediate holding company/a related company/subordinated loans from the immediate holding company**

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

Amounts due from/ 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.

Amounts due from/ to a related company are unsecured, interest-free and repayable upon demand with carrying balances approximating their fair value.

Subordinated loans were borrowed from the immediate holding company of HK\$2,500,000,000 (end of 2017: HK\$2,500,000,000), which are unsecured and bear interest at commercial interest rates. The loans were approved by the Hong Kong Securities and Futures Commission as subordinated loans for exclusion from ranking liabilities in accordance with section 53(2) of the Hong Kong Securities and Futures (Financial Resources) Rules in the computation of regulatory liquid capital.

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**17 Accounts and other payables**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Accounts payable from dealing in securities	6,812,751,262	7,430,329,632
Accounts payable from securities trading	40,614	108,194
Discretionary bonus payable	333,863,690	333,863,690
Others payables and accrued expenses	192,658,184	172,541,514
	<u>7,339,313,750</u>	<u>7,936,843,030</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.

**18 Deposits from customers**

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

**19 Financial liabilities at fair value through profit or loss**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Trading securities, at fair value		
- Equity securities, listed in Hong Kong	<u>26,323,415</u>	<u>19,100,250</u>

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**20 Share capital**

	Unaudited At 30 June 2018 HK\$	Audited At 31 December 2017 HK\$
Issued and fully paid: 200,000 (2017: 200,000) ordinary shares	2,000,000,000	2,000,000,000

**21 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 2018 HK\$	Audited At 31 December 2017 HK\$
Land and buildings:		
Less than one year	23,712,575	47,174,325
Between one and five years	-	7,997,863
	<u>23,712,575</u>	<u>55,172,188</u>



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**22 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, save 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	
	2018 HK\$'000	2017 HK\$'000
Condensed consolidated income statement items:		
Interest income from bank deposits & others	85,866	49,596
Brokerage commission	381,438	230,951
Corporate finance and loan syndication fees	13,631	28,066
Other handling income	513	177
Underwriting and placement commission	22,418	11,151
Management fee income	12,729	37,444
Interest expense from loans and other borrowings	(115,924)	(44,559)
Commission expenses arising from brokerage activities	(150,061)	(89,601)
Management fee expense	(301,064)	(256,963)
Operating lease rental in respect of leased premises	(28,696)	(29,796)
	<u>                    </u>	<u>                    </u>