Base Listing Document
relating to Structured Products to be issued by
BOCI ASIA LIMITED

BOCI ASIA LIMITED

(Incorporated in Hong Kong with limited liability)

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This document includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") for the purpose of giving information with regard to us and our warrants ("Warrants"), callable bull/bear contracts ("CBBC") and other structured products (together, the "Structured Products") to be listed on the Stock Exchange from time to time. We accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement in this document misleading. This document may be updated and/or amended from time to time by way of addenda.

The Structured Products involve derivatives. Investors should not invest in the Structured Products unless they fully understand and are willing to assume the risks associated with them.

Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and, when necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute our general unsecured contractual obligations and of no other person and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products you are relying upon our creditworthiness and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index.

Base Listing Document dated 22 May 2012

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GENERAL INFORMATION

WHAT IS THIS DOCUMENT ABOUT?

This document is for information purposes only and does not constitute an offer, an advertisement or an invitation to the public to subscribe for or to acquire any Structured Products.

This document supersedes the previous base listing document dated 20 May 2011 issued by BOCI Asia Limited (referred to as "we", "us" or "our" except in Appendix 2). In this document, the "Group" is referred to as BOCI Asia Limited and its subsidiaries except in Appendix 2.

WHAT DOCUMENTS SHOULD YOU READ BEFORE INVESTING IN THE STRUCTURED PRODUCTS?

A supplemental listing document will be issued on the issue date of each series of Structured Products, which will include detailed commercial terms of the relevant series. You must read this document (including any addendum to this document to be issued from time to time), together with such supplemental listing document (including any addendum to such supplemental listing document to be issued from time to time) (together, the "**Listing Documents**") before investing in any Structured Product. You should carefully study the risk factors set out in the Listing Documents.

WHAT ARE OUR CREDIT RATING?

We have not been assigned any ratings by any credit rating agencies as at the date of this document.

WHO IS RESPONSIBLE FOR THIS DOCUMENT?

We accept full responsibility for the accuracy of the information contained in this document.

We have included references to websites to guide you to sources of freely available information. The information on these websites does not form part of our Listing Document. We do not accept any responsibility for information on these websites. Such information has not been prepared for the purposes of our Structured Products.

This document is accurate at the date stated on the cover. You must not assume, however, that information in this document is accurate at any time after the date of this document.

The liquidity provider and the agent are not responsible in any way for ensuring the accuracy of our Listing Documents.

ARE WE REGULATED BY THE HONG KONG MONETARY AUTHORITY OR AN OVERSEAS REGULATORY AUTHORITY OR THE SECURITIES AND FUTURES COMMISSION OF HONG KONG (THE "SFC")?

We are licensed for types 1 and 6 regulated activities by the SFC and are not regulated by any of the bodies referred to in Rule 15A.13(2) of the Stock Exchange's Listing Rules.

WHEN WERE THE STRUCTURED PRODUCTS AUTHORISED?

The issue of our Structured Products was authorised by resolutions of our board of directors on 15 May 2012.

WILL THE STRUCTURED PRODUCTS BE LISTED?

We will apply to the Stock Exchange to list each series of the Structured Products which we issue and this document has been published for the purposes of obtaining a listing of each series of Structured Products.

WILL THE STRUCTURED PRODUCTS BE ADMITTED TO CCASS?

We will make arrangements to ensure that each series of Structured Products will be accepted by the HKSCC as eligible securities for deposit, clearance and settlement in the Central Clearing and Settlement System (the "**CCASS**"). All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

ARE WE SUBJECT TO ANY LITIGATION?

As of the date of this document, we and our subsidiaries have no litigation or claims of material importance pending or threatened against us or them.

HAS OUR FINANCIAL POSITION CHANGED SINCE LAST FINANCIAL YEAR-END?

There has been no material adverse change in our financial or trading position since 31 December 2011.

DO YOU NEED TO PAY ANY TRANSACTION COST?

The Stock Exchange charges a trading fee of 0.005 per cent and the SFC charges a transaction levy of 0.003 per cent in respect of each transaction effected on the Stock Exchange payable by each of the seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended.

WHERE CAN YOU INSPECT THE RELEVANT DOCUMENTS?

The following documents are available for inspection during usual business hours on any weekday (public holidays excepted) at 20/F, Bank of China Tower, 1 Garden Road, Hong Kong:

(a) our annual consolidated financial statements for the year ended 31 December 2011 and the auditor's report;

(b) the consent letter issued by PricewaterhouseCoopers (the "**Auditor**") dated 22 May 2012;

(c) the instrument executed by us by way of deed poll on 7 May 2009 as defined in the Terms and Conditions of our Structured Products as set out in Appendix 1; and

(d) this document (and any addendum to this document), the relevant supplemental listing document as long as the relevant series of Structured Products is listed on the Stock Exchange.

Request for photocopies of the above documents will be subject to a reasonable fee which reflects the cost of making such copies.

The Listing Documents are also available on the website of HKEX at *http://www.hkex.com.hk.*

各上市文件亦可於香港交易所披露易網站 *(http://www.hkex.com.hk/index_c.htm)*瀏覽。

This document is also available from the website of BOCI Financial Products Limited at *http://www.bocifp.com.*

本文件亦可於中銀國際金融產品有限公司的網站 *(http://www.bocifp.com)*查閱。

HAS THE AUDITOR CONSENTED TO THE INCLUSION OF ITS REPORT IN THIS DOCUMENT?

Our Auditor has given and has not withdrawn its written consent to the inclusion of its report dated 30 April 2012 in this document and/or the references to its name in this document, in the form and context in which they are included. Its report was not prepared for incorporation into this document. The Auditor does not hold our shares or shares in our subsidiaries, nor does it has the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

HOW CAN YOU GET FURTHER INFORMATION ABOUT US?

You may visit *www.bocifp.com* to obtain further information about us.

PLACING, SALE AND GREY MARKET DEALINGS

No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdictions except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us. See the section headed "Purchase and Sale" in this document for further information.

Following the launch of a series of Structured Products, we may place all or part of that series with our related party.

The Structured Products may be sold to investors in the grey market in the period between the launch date and the listing date. We will report any dealings in Structured Products by us and/or any of our subsidiaries or associated companies in the grey market to the Stock Exchange on the listing date through the website of HKEX at *www.hkex.com.hk*.

GOVERNING LAW OF THE STRUCTURED PRODUCTS

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of Hong Kong.

THE LISTING DOCUMENTS ARE NOT THE SOLE BASIS FOR MAKING AN INVESTMENT DECISION

The Listing Documents do not take into account your investment objectives, financial situation or particular needs. Nothing in the Listing Documents should be construed as a recommendation by us or our affiliates to invest in the Structured Products or the underlying assets of the Structured Products.

No person has been authorized to give any information or to make any representation other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us.

HKEX, the Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the merits of investing in any Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

OVERVIEW OF OUR WARRANTS

WHAT IS A DERIVATIVE WARRANT?

A derivative warrant linked to an underlying asset is an instrument which gives the holder a right to "buy" or "sell" an underlying asset at, or derives its value by reference to, a pre-set price or level called the exercise price or strike level (as the case may be) on the expiry date.

The underlying asset may be a stock, units in funds or trusts, a basket of stocks and/or units in funds or trusts, an index, a basket of indices, currency, commodity or other asset or combination of such assets.

A derivative warrant may provide leveraged return to you but conversely, it could also magnify your losses.

HOW AND WHEN CAN YOU GET BACK YOUR INVESTMENT?

Our warrants are European Style warrants, that means they can only be exercised on the expiry date. A warrant will be exercised on the expiry date, entitling the holder to a cash amount called the "Cash Settlement Amount" (if positive) according to the relevant product conditions in the Listing Documents.

You will receive the cash settlement amount less any exercise expenses upon expiry. If the cash settlement amount is equal to or less than the exercise expenses, no amount is payable to you upon expiry.

WHAT ARE THE FEATURES OF OUR WARRANTS?

Our warrants comprise of: cash-settled stock warrants, index warrants and warrants over single unit trusts. Each type of our warrants will be subject to a separate set of master terms and conditions as set out in Appendix 1 of this document.

The main features of our warrants are described below:

Issuer:	BOCI Asia Limited
Ranking of our warrants:	Our warrants will rank equally with all our other present and future unsecured and unsubordinated obligations.
Agent:	BOCI Securities Limited
Liquidity Provider:	BOCI Securities Limited or any liquidity provider as appointed by us from time to time.
Form:	In registered form subject to and with the benefit of a deed poll made by us. Each issue will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or its successors) as warrantholder and deposited within the CCASS. We will not issue any definitive certificates for our warrants.
Further issues:	We can create and issue further warrants to form a single series with an existing issue of our warrants.
Delisting of the shares/units underlying our warrants:	If the shares/units of the company/trust are delisted from the relevant stock exchange, we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our warrants.

Adjustments upon certain events affecting the company/trust or index of our warrants:	If certain corporate events occur in connection with the company or trust underlying our warrants, or if certain events occurred which materially modifies the underlying index, we may make adjustments to the terms of that issue to account for the effect of such events. Please see the relevant terms and conditions of our warrants for further details. These events and the possible adjustments we may make are set out in detail in the applicable terms and conditions.
Governing law:	Our warrants are governed by the laws of Hong Kong.

WHAT ARE CASH-SETTLED STOCK WARRANTS?

The underlying asset of stock warrants is shares of a company. The shares may be listed in Hong Kong or overseas.

Our cash-settled stock warrants provide for cash settlement only, which means that physical delivery of the underlying shares will not be available as a method of settlement; instead, upon the exercise of each board lot of warrants, we will pay the warrantholder a cash amount equals to:

(i) in the case of a series of call warrants:

$$\text{Cash settlement amount per board lot} = \frac{\text{entitlement x (average price – exercise price) x one board lot}}{\text{number of warrant(s) per entitlement}}$$

(ii) in the case of a series of put warrants:

$$\text{Cash settlement amount per board lot} = \frac{\text{entitlement x (exercise price – average price) x one board lot}}{\text{number of warrant(s) per entitlement}}$$

and in each case less any exercise expenses, so long as such amount is greater than zero.

For our cash-settled stock warrants, the average price of an underlying share is determined by reference to market closing price on each valuation date.

Please see the terms and conditions of our warrants for further details.

WHAT ARE CASH-SETTLED INDEX WARRANTS?

The underlying asset of index warrants is an index published by an index compiler.

Our cash-settled index warrant gives its holders a right, upon the exercise of each board lot of warrants, to receive from us a cash amount equals to:

(i) in the case of a series of call warrants:

$$\text{Cash settlement amount per board lot} = \frac{\text{(closing level – strike level) x one board lot x index currency amount}}{\text{divisor}}$$

(ii) in the case of a series of put warrants:

$$\text{Cash settlement amount per board lot} = \frac{\text{(strike level – closing level) x one board lot x index currency amount}}{\text{divisor}}$$

and in each case converting such amount into the settlement currency of our warrants if necessary, and less any exercise expenses, so long as such amount is greater than zero.

The closing level of the index on the date of exercise may be determined by reference to the official settlement price of an exchange traded contract relating to the index or some other means.

Please see the terms and conditions of our warrants for further details.

WHAT ARE CASH-SETTLED WARRANTS OVER SINGLE UNIT TRUSTS?

The underlying asset of warrants over single unit trusts is units of a trust. The units may be listed in Hong Kong or overseas.

Our cash-settled warrants over single unit trusts provide for cash settlement only, which means that physical delivery of the underlying units will not be available as a method of settlement; instead, upon the exercise of each board lot of warrants, we will pay the warrantholder a cash amount equals to:

(i) in the case of a series of call warrants:

$$\text{Cash settlement amount per board lot} = \frac{\text{entitlement x (average price – exercise price) x one board lot}}{\text{number of warrant(s) per entitlement}}$$

(ii) in the case of a series of put warrants:

$$\text{Cash settlement amount per board lot} = \frac{\text{entitlement x (exercise price – average price) x one board lot}}{\text{number of warrant(s) per entitlement}}$$

and in each case less any exercise expenses, so long as such amount is greater than zero.

For our cash-settled warrants over single unit trusts, the average price of an underlying unit is determined by reference to market closing price on each valuation date.

Please see the terms and conditions of our warrants for further details.

WHAT ARE THE FACTORS DETERMINING THE PRICE OF A WARRANT?

The price of a warrant tends to mirror the movement in the value of the underlying asset in dollar value (on the assumption of an entitlement ratio of one warrant to one unit of the underlying asset). However, throughout the term of a warrant, its price will be influenced by a number of factors, including:

(a) the exercise price/strike level;

(b) the volatility of the price/level of the underlying asset (being a measure of the fluctuation in the price/level of the underlying asset);

(c) the time remaining to expiry: generally, the longer the remaining life of the warrant, the greater its value;

(d) any change(s) in interest rates;

(e) expected dividend payments or other distribution on the underlying asset or on any components comprising the underlying index;

(f) the supply and demand for the warrants;

(g) the probable range of the cash settlement amounts;

(h) the depth of the market or liquidity of the underlying asset or of the future contracts relating to the underlying index;

(i) any related transaction cost; and/or

(j) our creditworthiness.

WHAT IS YOUR MAXIMUM LOSS?

Your maximum loss in warrants will be limited to your investment amount plus any transaction costs.

HOW CAN YOU GET INFORMATION ABOUT THE WARRANTS AFTER ISSUE?

You may visit HKEX website at *www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm* to obtain further information on our warrants or any notice given by us or the Stock Exchange in relation to our warrants.

OVERVIEW OF OUR CBBCS

WHAT ARE CBBCS?

CBBCs are a type of Structured Products that track the performance of an underlying asset. CBBCs can be issued on different types of underlying assets as prescribed by the Stock Exchange from time to time, including:

(a) shares or units listed on the Stock Exchange;

(b) Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng China H-Financials Index; and/or

(c) overseas shares, indices, currencies or commodities (such as oil, gold and platinum).

A list of eligible underlying assets for CBBCs is available on the website of HKEX at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/underlying_latest.htm*.

CBBCs are issued either as bull CBBCs or bear CBBCs, allowing you to take either bullish or bearish positions on the underlying asset. Bull CBBCs are designed for investors who have an optimistic view on the underlying asset. Bear CBBCs are designed for investors who have a pessimistic view on the underlying Asset.

Your maximum potential loss in a series of CBBCs is limited to the purchase price, which is generally a fraction of the value of the underlying asset, for the CBBCs plus the cost involved in your purchase.

WHAT ARE THE FEATURES OF OUR CBBCS?

Our CBBCs comprise of: CBBCs relating to a share, CBBCs relating to an index and CBBCs relating to unit trusts. Each type of our CBBCs will be subject to a separate set of master terms and conditions as set out in Appendix 1 of this document. For each issue of our CBBCs, we will publish a supplemental listing document setting out their specific terms. Together with the specific terms set out in the relevant supplemental listing document, the terms and conditions set out in Appendix 1 hereto form the legally binding terms and conditions of that issue of CBBCs.

The main features of our CBBCs are described below:

Issuer:	BOCI Asia Limited
Ranking of our CBBCs:	Upon the occurrence of a mandatory call event or an automatic exercise on expiry, our CBBCs will become our direct, unconditional, unsecured and unsubordinated obligations ranking equally with all our other direct, unconditional, unsecured and unsubordinated obligations.
Agent:	BOCI Securities Limited
Liquidity Provider:	BOCI Securities Limited or any liquidity provider as appointed by us from time to time.
Form:	In registered form subject to and with the benefit of an instrument made by us. Each issue will be represented by a global certificate in the name of a nominee for HKSCC (currently HKSCC Nominees Limited) as holder of our CBBCs and deposited within the Central Clearing and Settlement System (CCASS).

	We will not issue any definitive certificates for our CBBCs.
Further issues:	We can issue further CBBCs to form a single series with an existing issue of our CBBCs.
Delisting of the shares/units underlying our CBBCs:	If the shares/units of the company/trust underlying a particular issue of our CBBCs are delisted from the relevant stock exchange, we may adjust the terms of that issue as further detailed in the relevant terms and conditions of our CBBCs.
Adjustments upon certain events affecting the company/trust or the index underlying our CBBCs:	If certain corporate events occur in connection with the company or trust underlying our CBBCs, or if certain events occur which materially modifies the underlying index, we may make adjustments to the terms of that issue to account for the effect of such events. Please see the relevant terms and conditions of our CBBCs for further details. These events and the possible adjustments we may make are set out in detail in the applicable set of terms and conditions.
Governing law:	Our CBBCs are governed by the laws of the Hong Kong.

WHAT ARE THE SPECIFIC FEATURES OF OUR CBBCS?

- CBBCs relating to a share or unit of a fund or trust:

The underlying asset of our CBBCs relating to a share/unit is shares of a company or units of a fund or trust. The shares/units may be listed in Hong Kong or overseas.

CBBCs relating to a share are issued either as Bull CBBCs or Bear CBBCs:

Bull CBBCs relating to a share/unit

Generally for a series of Bull CBBCs relating to a share/unit, when the spot price of the underlying share/unit as reported by the relevant exchange is at or below the predetermined call price at any time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will be terminated. If no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder of such CBBCs an amount equals to:

$$\text{Cash settlement amount per board lot} = \frac{\text{entitlement x (closing price – strike price) x one board lot}}{\text{number of CBBC(s) per entitlement}}$$

and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bull CBBCs or Category R Bull CBBCs.

For Category N Bull CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bull CBBCs (where the call price is above the strike price), the holder of each board lot of CBBCs will receive from us a residual value equals to:

$$\text{Residual value per board lot} = \frac{\text{entitlement x (minimum trade price – strike price) x one board lot}}{\text{number of CBBC(s) per entitlement}}$$

and less any exercise expenses, so long as such amount is greater than zero.

Please note that during the life of a bull CBBC relating to a share/unit, a given percentage change in the underlying share/unit price may not result in the same percentage change in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, the loss of a significant portion or the entire amount of your investment in our CBBCs. Please refer to the "Risk Factors" section of the relevant supplemental listing document.

Bear CBBCs relating to a share/unit

Generally for a series of Bear CBBCs relating to a share/unit, when the spot price of the underlying share/unit as reported by the relevant exchange is at or above the predetermined call price at any time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will be terminated. If no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder of such CBBCs an amount equals to:

$$\text{Cash settlement amount per board lot} = \frac{\text{entitlement x (strike price – closing price) x one board lot}}{\text{number of CBBC(s) per entitlement}}$$

and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bear CBBCs or Category R Bear CBBCs.

For Category N Bear CBBCs (where the call price is equal to the strike price), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bear CBBCs (where the call price is below the strike price), the holder of each board lot of CBBCs will receive from us a residual value equals to:

$$\text{Residual value per board lot} = \frac{\text{entitlement x (strike price – maximum trade price) x one board lot}}{\text{number of CBBC(s) per entitlement}}$$

and less any exercise expenses, so long as such amount is greater than zero.

Please note that during the life of a bear CBBC relating to a share/unit, a given percentage change in the underlying share/unit price may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, the loss of a significant portion or the entire amount of your investment in our CBBCs. Please refer to the "Risk Factors" section of the relevant supplemental listing document.

For both our Bull CBBCs and Bear CBBCs relating to a share/unit, the closing price of the underlying share/unit will be determined by reference to the market closing price on the valuation date, and the minimum/maximum trade price of the underlying share/unit will be determined by reference to the lowest/highest spot price at which the underlying unit/share has traded on the exchange during MCE valuation period. Please see the terms and conditions of our CBBCs for further details.

- CBBCs relating to an index:

The underlying asset of CBBCs relating to an index is an index published by an index compiler.

CBBCs relating to an index are issued either as Bull CBBCs or Bear CBBCs:

Bull CBBCs relating to an index

Generally for a series of Bull CBBCs relating to an index, when the spot level of the underlying index as published by the index compiler is at or below the predetermined call level at any time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will be terminated. If no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder of such CBBC an amount equals to:

$$\text{Cash settlement amount per board lot} = \frac{\text{(closing level – strike level) x one board lot x index currency amount}}{\text{divisor}}$$

and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bull CBBCs or Category R Bull CBBCs.

For Category N Bull CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bull CBBCs (where the call level is above the strike level), the holder of each board lot of the CBBC will receive from us a residual value, which will be an amount equals to:

$$\text{Residual value per board lot} = \frac{\text{(minimum index level – strike level) x one board lot x index currency amount}}{\text{divisor}}$$

and less any exercise expenses, so long as such amount is greater than zero.

Please note that during the life of a bull CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, the loss of a significant portion or the entire amount of your investment in our CBBCs. Please refer to the "Risk Factors" section of the relevant supplemental listing document.

Bear CBBCs relating to an index

Generally for a series of Bear CBBCs relating to an index, when the spot level of the underlying index as published by the index compiler is at or above the predetermined call level at any time during the observation period of the CBBCs, a mandatory call event occurs and the CBBCs will be terminated. If no mandatory call event occurs during the observation period, upon expiry, for each board lot of CBBCs, we will pay the holder of such CBBC an amount equals to:

$$\text{Cash settlement amount per board lot} = \frac{(\text{strike level} - \text{closing level}) \text{ x one board lot x index currency amount}}{\text{divisor}}$$

and less any exercise expenses, so long as such amount is greater than zero.

If a mandatory call event has occurred, whether the holder of our CBBCs may receive a residual value depends on whether the CBBCs are Category N Bear CBBCs or Category R Bear CBBCs.

For Category N Bear CBBCs (where the call level is equal to the strike level), the holder of the CBBCs will not receive any cash payment from us upon the occurrence of the mandatory call event.

For Category R Bear CBBCs (where the call level is below the strike level), the holder of a CBBC will receive from us a residual value, which will be an amount equals to:

$$\text{Residual value per board lot} = \frac{(\text{strike level} - \text{maximum index level}) \text{ x one board lot x index currency amount}}{\text{divisor}}$$

and less any exercise expenses, so long as such amount is greater than zero.

Please note that during the life of a bear CBBC relating to an index, a given percentage change in the underlying index level may not result in the same percentage change (in the opposite direction) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller, in the same or opposite direction. The theoretical value of the CBBC may be different from the prices available in the market. You should be aware that you may be subject to, among other risks, the loss of a significant portion or the entire amount of your investment in our CBBCs. Please refer to the "Risk Factors" section of the relevant supplemental listing document.

For both our Bull CBBCs and Bear CBBCs relating to an index, the closing level will be determined by reference to the index level calculated for the purpose of final settlement of the applicable futures contract specified in the relevant supplement listing document, and the minimum/maximum index level will be determined by reference to the lowest/highest spot level of the underlying index as published by the index compiler during the MCE valuation period. Please see the terms and conditions of our CBBCs for further details.

WHAT ARE THE FACTORS DETERMINING THE PRICE OF A CBBC?

The price of a CBBC tends to mirror the movement in the value of the underlying asset in dollar value (on the assumption of an entitlement ratio of one CBBC to one unit of the underlying asset). However, throughout the term of a CBBC, its price will be influenced by a number of factors, including:

(a) the strike price/strike level and the call price/call level;

(b) the likelihood of the occurrence of a mandatory call event;

(c) for Category R CBBCs only, the probable range of the residual value payable upon the occurrence of a mandatory call event;

(d) the time remaining to expiry: generally, the longer the remaining life of the CBBC, the greater its value;

(e) any change(s) in interest rates;

(f) expected dividend payments or other distribution on the underlying asset or on any components comprising the underlying index;

(g) the supply and demand for the CBBCs;

(h) the probable range of the cash settlement amounts;

(i) the depth of the market or liquidity of the underlying asset or of the future contracts relating to the underlying index;

(j) any related transaction cost; and/or

(k) our creditworthiness.

WHAT IS YOUR MAXIMUM LOSS?

Your maximum loss in CBBCs will be limited to your investment amount plus any transaction cost.

HOW CAN YOU GET INFORMATION ABOUT THE CBBCS AFTER ISSUE?

You may visit HKEX website at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/intro.htm* to obtain further information on CBBCs or any notice given by us or HKEX in relation to our CBBCs.

RISK FACTORS

You should carefully consider the following information together with the other information contained in this document and in the applicable supplemental listing document before purchasing our Structured Products of any series.

This section highlights only some of the risks of dealing in the Structured Products but their inclusion in this document does not mean these are the only significant or relevant risks of dealing in our Structured Products.

There are risks associated with investing in our Structured Products; our Structured Products are volatile instruments

Our Structured Products involve a high degree of risk and are subject to a number of risks which may include interest, foreign exchange, time value and/or political risks. The price of Structured Products generally may fall in value as rapidly as they may rise and you may sustain a total loss in your investment. Your investment in our Structured Products involves risks. Before investing in any series of our Structured Products, you should consider whether our Structured Products are suitable for you in light of your own financial circumstances and investment objectives. Not all of these risks are described in this document or a supplemental listing document. You should consider taking independent professional advice prior to making an investment in our Structured Products.

Our Structured Products are complex and volatile instruments

Potential investors in Structured Products should recognize that certain Structured Products may expire worthless, our Structured Products are complex instruments and their values at any time prior to expiry are governed by a number of factors, including but not limited to the time left until expiry, the volatility of price or level of the underlying asset, market interest rate movements, our financial condition and market's view of our credit quality. The values of our Structured Products may rise or fall rapidly over a short time due to changes in one or more factors. The interplay of these different factors also means that the effect on the value of our Structured Products from the change in one factor may offset or accentuate the effect from the change in another factor. The value or level of the underlying assets (and some of the other relevant factors) can also be unpredictable, it may change suddenly and in large magnitude or remain unchanged. You may risk losing your entire investment if the price or level of the underlying assets do not move at all. You may risk losing your entire investment if the price or level of the underlying assets do not move in your anticipated direction. You should also note that, assuming all other factors are held constant, the value of our Structured Products will decline over time.

The cash settlement amount of our certain series of Structured Products if calculated at any time prior to expiry may typically be less than the market price of such Structured Products at that time. The difference will reflect, among other things, a "time value" for the Structured Products which depends on a number of interrelated factors including those specified above.

Your ability to realize your investment in our Structured Products is dependent on the trading market for our Structured Products

As our Structured Products are not exercisable prior to the expire date, the only way you may be able to realise the value of your investment in our Structured Products is to dispose of them either in the on-exchange market or over-the-counter market. If you dispose of your investment in our Structured Products before expiry in this way, the amount you will receive will depend on the price you are able to obtain from the market for our Structured Products. That price may depend on the quantity of our Structured Products you are trying to sell. The market price of our Structured Products may not be equal to the value of our Structured Products, and changes in the price of our Structured Products may not correspond (in direction and/or magnitude) with changes in the value of our Structured Products.

The liquidity provider appointed for our Structured Products will upon request provide bid and/or ask prices for our Structured Products on the Stock Exchange and may (but is not obliged to) provide such prices at other times too, but under certain circumstances it may not provide bid and/or ask prices even if requested. You should refer to the section regarding liquidity provider in the relevant supplemental listing document for further details. The prices provided by our liquidity provider are influenced by, among other things, the supply and demand of our Structured Products for a particular series in the market, and may not correspond with the values of such Structured Products or changes in such values.

You should note that the prices available in the market for our Structured Products may also come from other participants in the market, although we cannot predict if and to what extent a secondary market may develop in any series of Structured Products or whether that market will be liquid or illiquid. The fact that a particular series of Structured Products is listed does not necessarily lead to greater liquidity. In addition, no assurance can be given that the listing of any particular series of our Structured Products will be maintained. If our Structured Products of a particular series cease to be listed, they may not be transacted through the Stock Exchange or at all, and they may even be terminated early. Off-exchange transactions may involve greater risks than on-exchange transactions.

Only the liquidity provider appointed for our series of Structured Products is obliged to provide bid and/or ask prices for our Structured Products (subject to the terms set out in the relevant supplemental listing document), and at times it may be the only source of bid and/or ask prices for our Structured Products.

The liquidity of any series of our Structured Products may also be affected by restrictions on offers and sales of our Structured Products in some jurisdictions including the restrictions described in the section headed "Purchase and Sale" in this document.

If an underlying asset is suspended from trading or dealing for whatever reason on the market on which it is listed or dealt in (including the Stock Exchange), trading in the relevant series of Structured Products may be suspended for a similar period. The value of the Structured Products will decrease over time as the length of the period remaining to expiration becomes shorter. You should note that in the case of a prolonged suspension period, the market price of the Structured Products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the Structured Products. This may adversely affect your investment in the Structured Products.

You must rely on our creditworthiness; our obligations are not deposit liability or debt obligations

Our Structured Products are not secured on any assets. Our Structured Products represent our general contractual obligations and will rank equally with our other general unsecured obligations. The number of Structured Products outstanding at any given time may be substantial. When purchasing our Structured Products, you will be relying upon our creditworthiness and of no one else. We do not intend to create upon ourselves a deposit liability or a debt obligation by issue of any series of Structured Products.

You have no rights in the underlying assets and the market price for our Structured Products may fluctuate differently from that of the underlying assets

Our Structured Products are financial instruments issued by us and are separate from the underlying assets. You have no rights under our Structured Products against any company which issues or comprises the underlying assets of the relevant issue of Structured Products or the index compiler of any underlying asset that is an index. In addition, buying our Structured Products is not the same as buying the underlying assets or having a direct investment in the underlying assets. You will not be entitled to have voting rights, rights to receive dividends or distributions or any other rights under the underlying shares. As mentioned, there are many factors influencing the value and/or market price of our Structured Products, which are leveraged instruments. For example, increase in the price or level of the underlying assets may not lead to an increase in the value of our Structured Products by a proportionate amount or even any increase at all; however, a decrease in the price or level of the underlying assets may lead to a greater than proportionate decrease in the value and/or market price of our Structured Products. There is no assurance that a change in value and/or market price of our Structured Products will correspond in direction and/or magnitude with the change in price or level of the underlying assets. You should recognise the complexities of utilising our Structured Products to hedge against the market risk associated with investing in an underlying asset.

The issuer, the trustee, the manager or the sponsor of the underlying assets will have no involvement in the offer and sale of our Structured Products and no obligations to you as investors in our Structured Products. The decisions made by them on corporate actions, such as a merger or sale of assets, or adjustment of the method for calculation of an index may also have adverse impact on the value and/or market price of our Structured Products.

There could be conflicts of interest arising out of our other activities which may affect our Structured Products

We, our subsidiaries and affiliates may engage in transactions (whether for their proprietary accounts, including hedging, or trading for accounts under management or otherwise) involving, as well as provide investment banking and other services to, any company underlying our Structured Products or their securities and those transactions may have a positive or negative impact on the price or level of the underlying asset and in turn the value and/or market price of our Structured Products. We, our subsidiaries and affiliates may have officers who serve as directors of any of the companies underlying our Structured Products. Our proprietary trading activities (which include hedging of our Structured Products) in the underlying securities or related Structured Products may affect the value and/or market price of our Structured Products. We may issue other competing financial products which may affect the value and/or market price of our Structured Products. You should also note that potential conflicts of interest may arise from the different roles played by us, our subsidiaries and affiliates in connection with our Structured Products and the economic interests in each role may be adverse to your interests in our Structured Products. We owe no duty to you to avoid such conflicts.

We may early terminate our Structured Products due to illegality or impracticability

If we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable: (a) for us to perform our obligations under any Structured Products in whole or in part as a result of (i) the adoption of, or any change in, any relevant law or regulation (including any tax law) or (ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law) (each of (i) and (ii), a "**Change in Law Event**"); or (b) for us to maintain our hedging arrangements with respect to the Structured Products due to a Change in Law Event, we may terminate those Structured Products. Upon the occurrence of a Change in Law Event, we will, if and to the extent permitted by the applicable law or regulation, pay to each holder of those Structured Products a cash amount determined by us in good faith and in a commercially reasonable manner to be the fair market value of the Structured Products immediately prior to such termination (ignoring such illegality or impracticability) less our cost of unwinding any related hedging arrangement as determined by us in our sole and absolute discretion. Such fair market value of the Structured Products could be substantially less than the amount you invested and can be as low as zero.

Liquidation of underlying company or termination of underlying trust or fund

In the event of liquidation, dissolution or winding up of company that issues the underlying asset, or termination of a trust or fund that issues the underlying units or the appointment of a receiver or administrator or analogous person to the company, trust or fund, the relevant Structured Products shall lapse and shall cease to be valid for any purpose.

Time lag between the time of exercise and the time of determination of the settlement amount may affect the settlement amount

When exercising your Structured Products, there may be a time lag between the time of exercise and the time of determination of the settlement amount. Such delay could be significantly longer in the case of a market disruption event, delisting of the company that issues the underlying shares or other adjustment events. The settlement amount may change significantly during any such period and may result in such settlement amount being zero.

We may adjust the terms and conditions of our Structured Products upon the occurrence of certain corporate events or extraordinary events affecting the underlying assets

We may determine that certain corporate events or extraordinary events affecting the underlying assets have occurred and may make corresponding adjustments to the terms and conditions of our Structured Products, including adjustments to the value or level of the underlying assets or changing the composition of the underlying assets. Such events and/or adjustments (if any) may have adverse impact on the value and/or market price of our Structured Products. We may also in our sole discretion adjust the entitlement of any series of our Structured Products for dilution events such as stock splits and stock dividends.

However, we have no obligation to make adjustment for every event that can affect the underlying asset. The value and/or market price of our Structured Products may be adversely affected by such events in the absence of an adjustment by us. If adjustments were made, we do not assure that such adjustments can negate any adverse impact of such events on the value and/or market price of our Structured Products.

Our determination of the occurrence of a market or settlement disruption event may affect the value and/or market price of our Structured Products

We may determine that a market or settlement disruption event has occurred. Such determination may affect the value and/or market price of our Structured Products, and may delay settlement in respect of our Structured Products.

If we determine that a market disruption event exists, the valuation of the underlying assets for the purpose of calculating the cash settlement amount of our Structured Products will be postponed. If such market disruption event exists for a continuous period of time as specified in the terms of our Structured Products, we may determine the good faith estimate of the value or level of the underlying assets that would have prevailed on the relevant postponed valuation date but for such market disruption event.

Investment in our Structured Products may involve exchange rate risks and interest rate risks

An investment in our Structured Products may involve exchange rate risks. For example, the underlying asset may be denominated in a currency other than that of our Structured Products, our Structured Products may be denominated in a currency other than the currency of your home jurisdiction and our Structured Products may settle in a currency other than the currency in which you wishes to receive funds. Changes in the exchange rate(s) between the currency of the underlying asset, the currency in which our Structured Products settle and/or the currency of your home jurisdiction may adversely affect the return of your investment in our Structured Products. We cannot assure that current exchange rates at the issue date of our Structured Products will be representative of the future exchange rates used in computing the value of our Structured Products. Fluctuations in exchange rates may therefore affect the value of our Structured Products.

An investment in our Structured Products may also involve interest rate risk as the intrinsic value of our Structured Product may be sensitive to fluctuations in interest rates. Fluctuations in the short term or long term interest rates of the currency in which our Structured Products are settled or the currency in which the underlying asset is denominated may affect the value and/or market price of our Structured Products.

Please consult your tax advisors if you are in any doubt of your tax position

You may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where our Structured Products are transferred and such laws and practices may change from time to time. If you are in any doubt of your tax position, you should consult your own independent tax advisors.

Our Structured Products are issued in global registered form; you have to rely on your brokers to evidence title to your investment and to receive notices and the cash settlement amount

Our Structured Products are issued in global registered form and held on your behalf within a clearing system. This means that evidence of title to your interests, as well as the efficiency of ultimate delivery of the cash settlement amount, will be governed by the CCASS Rules.

Our Structured Products in global registered form will be registered in the name of HKSCC Nominees Limited (or its successors), which shall be treated by us as the holder of our Structured Products for all purposes. This means that you will not receive definitive certificates and the register will record at all times that our Structured Products are being held by HKSCC Nominees Limited (or its successors). You will have to rely solely upon your brokers and the statements received from your brokers to evidence title to your investments. You will also have to rely on your brokers to effectively inform you of any notices, announcements and/or meetings issued or called by us (upon receipt by those brokers as CCASS participants of the same from CCASS and ultimately from us). The Listing Rules also provide that our obligations to deliver notices, announcements and/or meetings will be complied with by posting on the Stock Exchange website. Our obligations to deliver any cash settlement amount to you will be duly performed by the delivery of any such amount to HKSCC Nominees Limited (or its successors) as the holder of the Structured Products. You will therefore have to rely on your brokers for the ultimate delivery of any cash settlement amount to you as the investor.

Effect of the combination of risk factors unpredictable

Two or more risk factors may simultaneously have an effect on the value of a series of Structured Products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of a series of Structured Products.

We do not give you any advice or credit analysis

We are not responsible for the lawfulness of your acquisition of our Structured Products. We are not giving you any advice or credit analysis of the underlying assets. You shall be deemed to have made a representation to such effect for each purchase of our Structured Products of any series.

Risks associated with Structured Products over trusts

In the case of Structured Products which relate to the units of a trust:

(a) we are not able to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee nor the manager of the relevant trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any obligation to consider the interest of the holders of any Structured Product in taking any actions that might affect the value of any Structured Product; and

(b) we have no role in the relevant trust. The trustee or manager of the relevant trust is responsible for making investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant trust. The manner in which the relevant trust is managed and the timing of actions may have a significant impact on the performance of the relevant trust. Hence, the market price of the relevant units is also subject to these risks.

Exchange traded funds

In the case of Structured Products linked to units of an exchange traded fund ("**ETF**"), you should note that:

(a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;

(b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and

(c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the Structured Products will also be indirectly subject to these risk.

Synthetic exchange traded funds

Additionally, where the underlying asset of Structured Products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**Synthetic ETF**"), you should note that:

(a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realize the collateral; and

(b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of Structured Products linked to such ETF or Synthetic ETF.

Risks associated with our CBBCs

You may lose all or substantially all your investment at expiry

If you hold your CBBCs until expiry and no mandatory call event occurs during the observation period, the cash settlement amount payable upon exercise at expiry will depend on how much the closing price or level of the underlying asset is above (in the case of bull CBBCs) or below (in the case of bear CBBCs) the strike price or level. The cash settlement amount may be substantially less than your initial investment in the CBBCs, and may even be zero.

You may lose all or substantially all of your investment upon the occurrence of the mandatory call event

Your may lose all or substantially all of your investment in our CBBCs if the mandatory call event occurs during the observation period of our CBBCs – meaning that the spot price or level of the underlying asset is at any time during the observation period at or below (for our Bull CBBCs) or at or above (for our Bear CBBCs) the predetermined call price or call level. The mandatory call event may be triggered by a single, small trade in the underlying share or security comprised in the underlying index, regardless of the size of the trade. The trade that triggers the mandatory call event may only be the result of a temporary fall (or rise, as the case may be) in the price or level of the underlying asset caused by a number of factors. Subsequent to the occurrence of the mandatory call event, the price or level of the underlying asset may recover to above (or below, as the case may be) the call price or call level.

Upon the occurrence of a mandatory call event, a Category N CBBC will become worthless while a Category R CBBC will be settled by the payment of a residual value (if any) by us. Such residual value is determined by reference to the amount by which the minimum trade price or index level of the underlying asset in the trading session in which the mandatory call event occurs and the immediately following trading session exceeds the strike price or strike level (for our Category R Bull CBBCs) or the amount by which the strike price or strike level exceeds the maximum trade price or index level of the underlying asset in the trading session in which the mandatory call event occurs and the immediately following trading session (for our Category R Bear CBBCs). This resultant amount may be as low as zero.

Where the mandatory call event occurs in a continuous trading session of the Stock Exchange, all trades of CBBCs concluded in that continuous trading session after the time at which the mandatory call event occurs will be cancelled. Where the mandatory call event occurs in a pre-opening session or a closing auction session (if any) of the Stock Exchange, all auction trades of CBBCs concluded in that pre-opening session or closing auction session (as the case may be) and all manual trades of CBBCs concluded after the end of the relevant pre-order matching period will be cancelled. We will announce the occurrence of the mandatory call event in accordance with the requirements of the Stock Exchange but the announcement of the same can be delayed by among other reasons, technical errors or system failures beyond our control. Your gain or loss from a trade that is subsequently cancelled will be reversed. If in the meantime you have entered into transactions with our CBBCs as a hedge, then upon cancellation of trades in our CBBCs, you will need to find a replacement hedge and may incur losses in doing so.

Termination of our CBBCs and cancellation of trades following the occurrence of the mandatory call event is irrevocable unless the mandatory call event is triggered by (i) system malfunction or other technical errors of the HKEX (e.g. the setting up of wrong call price or call level and other parameters) and such event is reported by the Stock Exchange to us and confirmed by us or (ii) manifest errors caused by any other third party price sources (e.g. any miscalculation of the index level by the index compiler) and such event is reported by us to the Stock Exchange and confirmed by the Stock Exchange. In each of the above cases, such reporting must be made no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the trading day of the Stock Exchange immediately following the day on which the mandatory call event occurs (or such other time frame as prescribed by the Stock Exchange from time to time).

Under the terms and conditions of our CBBCs, none of the Stock Exchange, us, the issuer or index compiler of the underlying asset or any of our or their affiliates or agent shall be responsible for any losses suffered as a result of the determination of the price or level of the underlying asset, any adjustments involved in determining the occurrence of the mandatory call event, the calculation of any cash settlement amount and the suspension of trading in connection with the mandatory call event, notwithstanding that such adjustments, calculation or suspension may have occurred as a result of an error.

A CBBC is different from a margin trading position over the same underlying asset

An investment in CBBC is similar to but not the same as a corresponding margin trading position.

Both are different from an actual position in the underlying asset in that an investor does not have to pay an amount equal to the maximum potential exposure of the position upon entry. Because the initial payment is small by comparison, a given change in the price or level of the underlying asset can result in a greater percentage change in the value of the investment.

Whilst the total gain or loss of investing in a CBBC upon exercise at expiry will be substantially equal to that of an equivalent margin trading position (of same size and strike price or level) on the same underlying asset, at other times a CBBC differs from an equivalent margin trading position in many ways.

Generally a margin trading position will be marked-to-market at the end of every trading day so that the holder would realise the day's gain or loss immediately, unless a mandatory call event or expiry occurs the gain or loss of a CBBC is realised only when it is sold. One can maintain a margin trading position even if the underlying asset price or level continues to move against the direction anticipated, so long as the holder continues to put up additional margin, with the CBBC when the underlying asset price or level reaches the call level it is immediately terminated. Once the call level is reached, a CBBC investor would lose his entire investment (for a Category N CBBC) or would only receive the residual value (if any, for a Category R CBBC) and due to the call termination, he would not benefit from the reversal of direction of the underlying asset price or level subsequent to the mandatory call event (for a Category N CBBC) or the determination of residual cash amount (for a Category R CBBC).

This call termination feature of CBBCs (among other reasons) also means that the theoretical value of a CBBC at a time prior to its expiry will be different from that of an equivalent margin trading position. A given percentage change in the price or level of the underlying asset may not result in the same percentage change (in the same direction for a bull CBBC or in the opposite direction for a bear CBBC) in the theoretical value of the CBBC. The percentage change in theoretical value of the CBBC may be greater or smaller (or may be zero), in the same or opposite direction.

The theoretical value of a CBBC at any time will also contain an amount which reflects our cost of maintaining the corresponding hedge position in the underlying asset (e.g. the cost of funding a long position in shares, the net cost of borrowing shares for short sale, or the cost of margin in maintaining the futures position). The purchase price of a CBBC you pay may include all or part of such cost and when the mandatory call event occurs, the cash settlement amount (if any) will not contain a refund of such cost. Other than at expiry (assuming mandatory call event does not occur prior to expiry) when the cash settlement amount will be set by the closing price or level of the underlying asset, at any time prior to the expiry you may sell your holding of CBBCs in the market and the price realised may or may not be the same as the theoretical value of the CBBCs, as the price will be determined by the levels of supply and demand in the market.

The funding costs of our CBBCs will fluctuate during the term of our CBBCs

The issue price of our CBBCs is set by reference to the difference between the initial reference spot level or spot price of the underlying asset as of the launch date and the strike price or strike level, plus the applicable funding cost. The initial funding cost applicable to our CBBCs is specified in the relevant supplemental listing document. It will fluctuate during the term of our CBBCs as the funding rate changes from time to time. The initial funding cost is an amount determined by us based on one or more factors, including but not limited to the strike price or strike level (as the case may be), the prevailing interest rate, the expected term of our CBBCs, any expected notional dividends in respect of the underlying asset and the margin financing provided by us.

TAXATION

The comments below are of a general nature and are based on current law and practice. They are not intended to provide guidance, potential investors in Structured Products are strongly advised to consult their own tax advisers as to their respective tax position on sale, purchase, ownership, transfer, holding or exercise of any Structured Products.

General

Investors in Structured Products may be required to pay stamp duties, taxes and other charges in accordance with the laws and practices of the country of purchase or their countries of residence in addition to the issue price of each Structured Product.

Taxation in Hong Kong

Profits Tax

No Hong Kong profit tax is payable by way of withholding or otherwise in respect of dividends of any company which has issued the underlying shares or in respect of any capital gains arising on the sale of the underlying shares or the Structured Products, except that Hong Kong profits tax may be chargeable on any such gains in the case of certain persons carrying on a trade, profession or business in Hong Kong and where such gains are of trading in nature and of a Hong Kong source.

Stamp Duty

No Hong Kong stamp duty liability should attach to either the entering into, transferring or the exercising of purely cash settled Structured Products.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 commenced on 11 February 2006. Estates of persons who pass away on or after the commencement date of that ordinance are not subject to Hong Kong estate duty.

PURCHASE AND SALE

General

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction (other than Hong Kong) where action for the purpose is required. No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us.

United States of America

Each series of Structured Products has not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Structured Products or interests therein, may not at any time be offered, sold, resold, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any US person or to others for offering, sale or resale in the United States or to such US persons. Offers and sales of Structured Products, or interests therein, in the United States or to US persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. No person will offer, sell, re-sell, transfer or deliver any Structured Products within the United States or to US persons, except as permitted by the base placing agreement between us and the sponsor, acting as manager. As used herein, "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "**US person**" means any national or resident of the United States, including any corporation, partnership or other entity created or organized in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other US person as such term if defined in Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer, sale, re-sale, transfer or delivery of Structured Products within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

United Kingdom

All applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") must be complied with, and will be complied with, in respect of anything done in relation to the Structured Products in, from or otherwise involving the United Kingdom. Any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in connection with the issue or sale of the Structured Products has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which Section 21(1) of the FSMA would not, if we were not an authorised person, apply to us.

Additional

The offer and sale of the Structured Products will also be subject to such other restrictions and requirements as may be set out in the relevant supplemental listing documents.

Persons interested in acquiring the Structured Products should inform themselves and obtain appropriate professional advice as to (i) the legal requirements within the countries of their nationality, residence, ordinary residence or domicile for such acquisition; (ii) any foreign exchange restrictions or exchange control requirements which they might encounter on the acquisition of the Structured Products or their redemption; or (iii) the acquisition, holding or disposal of the Structured Products.

INFORMATION IN RELATION TO US

History

We are a wholly-owned subsidiary of BOC International Holdings Limited ("**BOCI**") and were incorporated in Hong Kong on 10 July 1998 with limited liability. Our registered office and principal place of business is located at 26/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong. Our key functions are supported by BOCI and its other subsidiaries.

Group Profile

Bank of China Limited ("**BOCL**") is China's oldest commercial bank and since its inception in 1912, has enjoyed a pre-eminent position in China.

BOCL has two principal subsidiaries in Hong Kong, namely, BOCI and BOC Hong Kong (Holdings) Limited ("**BOCHK Holdings**"). BOCI and BOCHK Holdings are managed and operated independently in Hong Kong and report directly and independently to BOCL.

BOCL was listed on the Stock Exchange (Stock Code 3988. HK) on 1 June 2006 after a successful global offering sponsored by us.

BOCI and BOCHK Holdings

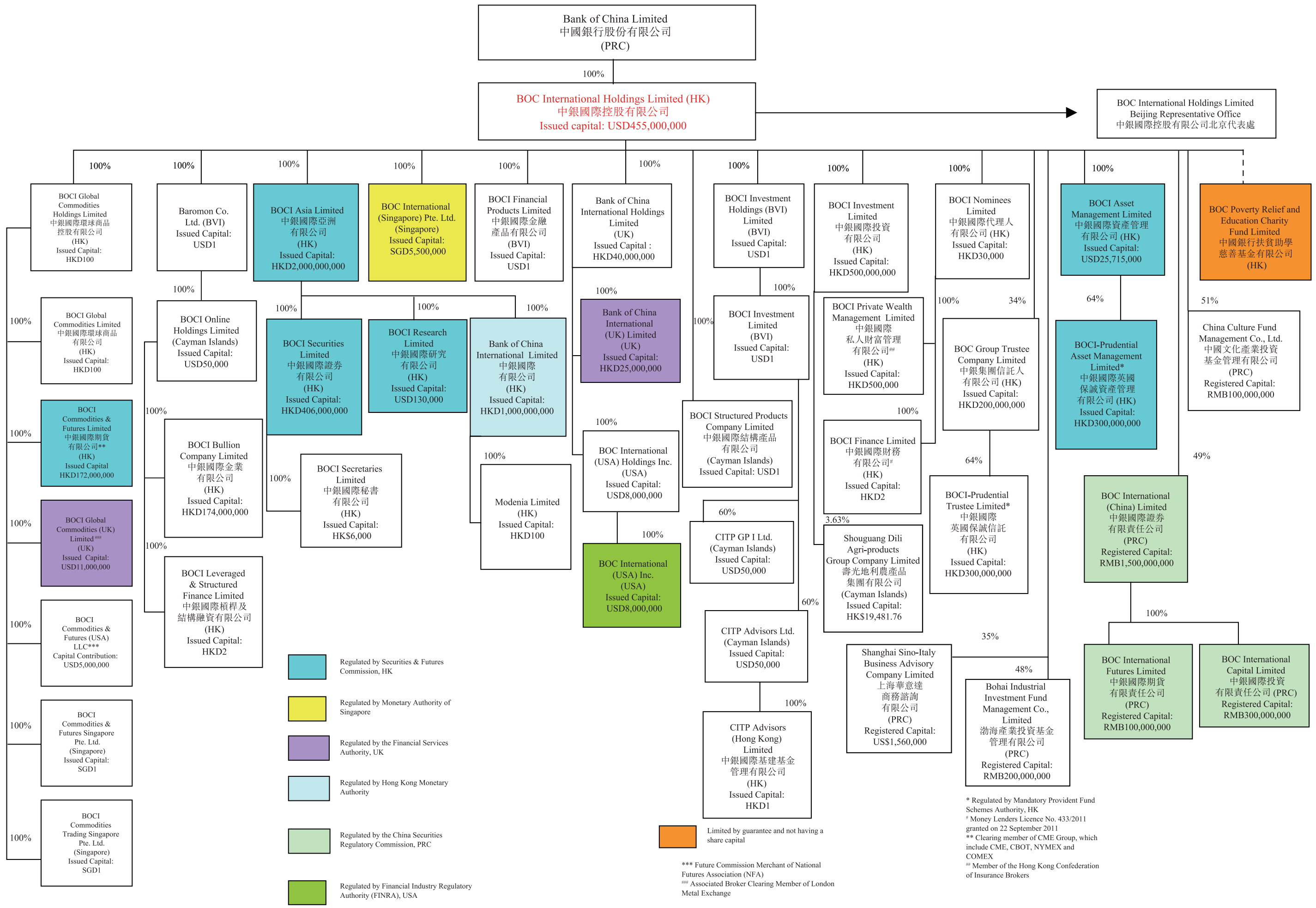
BOCI was incorporated in Hong Kong on 10 July 1998 and is a wholly-owned subsidiary of BOCL. BOCI is the investment banking arm of BOCL. BOCI has offices and subsidiaries in Shanghai, Beijing, Singapore, London and New York and is capable of delivering sophisticated solutions in Hong Kong and mainland China.

BOCHK Holdings was incorporated in Hong Kong on 12 September 2001 to hold the entire equity interest in Bank of China (Hong Kong) Limited ("**BOCHK**"), its principal operating subsidiary. Other major subsidiaries of BOCHK include Nanyang Commercial Bank Limited, Chiyu Banking Corporation Limited and BOC Credit Card (International) Limited. BOCHK Holdings was listed on the Stock Exchange (Stock Code 2388.HK) on 25 July 2002 and is now a constituent stock of the Hang Seng Index, Financial Times Index and MSCI Hong Kong Index.

BOCHK is one of the three Hong Kong dollar note issuing banks. It operates in four strategic business units, including retail banking, corporate banking and treasury, business planning, and finance and business support services. The retail banking, corporate banking and treasury units constitute BOCHK's principal business lines.

The following is the organisation chart of BOCI and its subsidiaries (the "**BOCI Group**").

BOCI Group Chart
As at 24 April 2012



Principal Businesses

We are one of the leading investment banking services providers in Hong Kong, serving institutional, corporate, governmental and high-net-worth-individual clients. We provide a wide range of investment banking services to our clients, including the sponsoring of initial public offering ("**IPO**"), the underwriting of equity and debt issues, advising in respect of mergers and acquisitions, private equity, restructuring of debt and assets, and arrangement of leveraged finance through some of our other affiliates. Our wholly owned subsidiary, BOCI Securities Limited ("**BOCI Securities**"), is also active in the Hong Kong equities agency business and is one of the top brokers in Hong Kong.

We are licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) for Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities and have been so since 14 February 2005.

The principal businesses of BOCI Group include advising on corporate finance matters and lead managing equity and debt issues as described below:

Equity Offerings

We provide domestic and overseas listing services with international standards to clients across various industries. We are one of the market leaders in Hong Kong IPO underwriting over the past years.

The total fund raised by Hong Kong IPO issuers for which we acted as the lead underwriter was over US$4,479 million in 2011 and US$6,542 million in 2010.

In 2011, we acted as the sole global coordinator, sole bookrunner, sole sponsor and sole lead manager for the listings of China Fiber Optic Network System Group Ltd.. For the IPOs of China Tianrui Group Cement Company Limited and Beijing Jingneng Clean Energy Co Limited, we were the joint global coordinator, joint bookrunner, joint sponsor and joint lead manager. We were the joint global coordinator, joint bookrunner and joint lead manager for the IPO of Yuanda China Holdings Limited. We were joint bookrunner and joint lead manager for the IPOs of Hosa International Limited, China Outfitters Holdings Limited, China Lifestyle Food and Beverages Group Limited and CITIC Securities Company Limited. We acted as the joint bookrunner, joint lead manager and joint placing agent for the IPO of the first RMB-denominated REIT in HK: Huixian Real Estate Investment Trust, and we acted as the joint lead manager for the IPO of Chow Tai Fook Jewellery Group Limited and co-lead manager for the IPOs of Glencore International plc and Newton Resources Ltd.

We also acted as sole bookrunner and placing agents for the placements of Modern Media Holdings. We were joint bookrunner and joint placing agents for the placements of Minmetals Resources Limited, China Lumena New Materials Corporations and Trinity Limited.

In 2010, we acted as the sole global coordinator, sole bookrunner, sole sponsor and sole lead manager for the listings of Far East Global Group Limited and Magic Holdings International Limited. For the IPO of China Rongsheng Heavy Industries Group Holdings Limited and Shirble Department Store Holdings (China) Limited, we were the joint global coordinator, joint bookrunner, and joint lead manager. We were joint bookrunner and joint lead manager for the IPOs of International Mining Machinery Holdings Limited, Zhongsheng Group Holdings Limited, IRC Limited, MI Energy, Leoch International Technology Limited, China Gold International Resources Corp. Ltd, China, Sateri Holdings Limited and MIE Holdings Corporation. We acted as the joint bookrunner for the IPO of United Company RUSAL Limited and we acted as the joint lead manager for the IPO of Changsha Zoomlion Heavy Industry Science & Technology Development Co., Ltd.

We also acted as sole bookrunner and placing agents for the placements of Luk Fook Holdings (International) Ltd., China Everbright International Ltd., Comba Telecom Systems Holdings Ltd., Brightoil Petroleum (Holdings) Limited, Prosperity Investment Holdings Ltd., Minmetals Land Ltd., Chevalier International Holdings Ltd. and AviChina Industry & Technology Company Ltd. We were joint bookrunner and joint placing agents for the placements of Sino-Ocean Land Holdings Limited, Coolpoint Energy Ltd., Poly (Hong Kong) Investments Ltd., TC Interconnect Holdings Ltd., CST Mining Group Ltd., China Grand Pharmaceutical and Healthcare Holdings Ltd. and Orange Sky Golden Harvest Entertainment (Holdings) Ltd.

We ranked No. 6 for IPOs in the Hong Kong equity market from January 2006 to December 2011. We ranked No.6 for placements in the Hong Kong equity market from January 2007 to December 2011. We were No. 5 in equity underwriting which includes both IPOs and equity placements from January 2006 to December 2011 in the Hong Kong Equity market.

Mergers & Acquisitions

In light of increasing M&A cross border activities, BOCI has been the leading financial advisor for our clients in Hong Kong, China and overseas. We have been effectively leveraging our domestic and international reach and completed many landmark M&A transactions over the years.

In 2011, we advised Nexans in its acquisition of 75% stake of Shandong Yanggu Cable Group for RMB1.4bn. We also acted as the financial advisor to shareholder of Bank of Guangzhou for the disposal of 19.99% interest to Bank of Nova Scotia for RMB4.6bn and advised Sunshine Oilsands for the introduction of BOCG Investment, China Life and Cross Strait Development as pre-IPO investors with an investment of CAD210 million.

Debt Issues

DCM team has executed more than 70 bond and hybrid transactions (including public offerings and private placements) since its reform in 2005. We have rewarded 2011 Best China Bond House from IFR Asia, Best Investment Grade Bond in 2011 for CNOOC US$2 billion senior bond from FinanceAsia, 2010 Equity Deal of the Year in Asia Pacific from The Banker for Sino Ocean Land's US$900 million perpetual subordinated convertible securities, The Best Bank Capital Bond Award 2010 from the Asset for Bank of China (HK)'s US$2.5 billion 5.55% lower tier-2 bond offering, respectively.

The team has closed more than 30 deals in 2011, and and key ones are: Joint Global Coordinator/Joint bookrunner of CNPC RMB3 billion CNH bond, Joint lead manager/Joint bookrunner of Khazanah RMB500 million Islamic CNH bond, Joint lead manager/Joint bookrunner of COFCO(HK) RMB3 billion CNH bond, Sole Global coordinator/Joint bookrunner of Zhongsheng RMB1.25 billion 3-year RMB bond, Joint lead manager/Joint bookrunner of BOCHK US$750 million senior bond, Joint lead manager/Joint bookrunner of China Resources Land US$1 billion senior bond, Joint Global Coordinator/Joint bookrunner of ENN US$750 million senior bond, Sole lead manager/Sole bookrunner of Zijin Mining US$480 million senior bond, Joint lead manager/Joint bookrunner of CNOOC Ltd. US$2 billion senior bond, Joint lead manager/Joint bookrunner of Evergrande Real Estate Group RMB9.25 billion synthetic RMB bond, Joint lead manager/Joint bookrunner of Shangri-la Asia's US$500 million 5-year convertible bond, Joint lead manager/Joint bookrunner of Kerry Property US$300 million senior bond etc. Our executed product ranges is wide, and include various types of instruments from bonds, convertible bonds to hybrids. We also provide advisory services for companies in their liabilities management, including bond buy-back, bond restructuring and consent solicitation, etc.

Asset Management

BOCI Group and Prudential Corporation Holdings Limited has jointly established BOCI-Prudential Asset Management Limited ("**BOCI-Prudential**"). BOCI-Prudential has over HK$53 billion of assets under management (as at 31 December 2011).

BOCI-Prudential offers a comprehensive range of investment products, including Hong Kong Mandatory Provident Fund (MPF) scheme, pension funds, retail unit trusts, exchange traded funds (ETF), institutional mandates and other advisory funds. It also offers discretionary investment portfolios and charity fund management services to both private individuals and institutional clients. As one of the pioneers in the asset management industry, BOCI-Prudential launched its first ETF, namely W.I.S.E. – CSI 300 China Tracker®, in 2007 and there are now 5 sub-funds under the W.I.S.E. series.

Brokerage

BOCI Securities, our wholly-owned subsidiary, is one of the most active brokers in Hong Kong. BOCI Securities offers a wide range of multi-market investment products including equities and futures listed in Hong Kong and elsewhere, options, leveraged foreign exchange contract, treasury bonds, corporate bonds, equity-linked investment product, equity-linked notes and other derivative products. BOCI Securities also offers investment services such as stock borrowing and lending service and financing services including margin financing, IPO margin financing, and financing for primary and secondary placements.

Private Equity

Benefit from extensive branch network and resources of BOC Group and an experienced team with local insight and in-depth knowledge in domestic and global capital markets, BOCI is uniquely positioned to capitalize on the Greater China private equity markets. Through long-term investments in market leaders, BOCI aims to build up strong partnerships with our portfolio companies and to deliver resources to strengthen their market. BOCI focuses on the value creation and long-term benefits of our portfolio companies and targets to enhance competitiveness and shareholder's value of the companies through ongoing contribution to their corporate governance structures, management capabilities and risk management capacities.

BOCI launched the Bohai Industrial Investment Fund, the first RMB-denominated private equity fund in China, in December 2006. The fund size amounted to RMB20 billion (US$2.8 billion) with an initial closing of RMB 6.08 billion (US$845 million). Bohai Industrial Investment Fund actively invests in Tianjin New Coastal District (Binhai New Area), Bohai Rim Region and all over China.

Leveraged and Structured Finance

Leveraged and Structured Finance Division was established in late 2007 to complement existing business of BOCI, by delivering creative financing solutions for Leveraged Buyouts, Strategic Mergers and Acquisitions, Build-ups, Recapitalizations, Restructurings, Assets Acquisitions, Project Finance and other capital market activities. Its products include Bridge Finance, Leveraged Finance, Structured Finance and Financial Advisory.

The division has positioned itself as a creative debt provider, filling the gap between equity providers and commercial banks. The addition of the division has enabled the provision of a one-stop banking service to our clienteles, equipping the Bank with an additional edge in pursuing its existing business.

Private Banking

BOCI launched its private banking business in April 2009 as a restricted licence bank, Bank of China International Limited (formerly known as BOCI Capital Limited) after reactivating its licence. This strategic move is a significant step in realising BOCI's plan in establishing first-class private banks worldwide. By capitalizing on the breadth of investment banking services, diversified product ranges and the pool of renowned expertise available within BOCI as well as our meticulously selected and monitored partners, Bank of China International Limited offers a comprehensive suite of privileged wealth management services exclusively for high net worth private banking clients, addressing their evolving financial needs, from deposit taking service to credit facility, from wealth preservation to income optimization.

BOCI Group Awards

Recognition for BOCI Group:

BOCI launched the China Cultural Industrial Investment Fund, a RMB-denominated private equity fund focused on culture sector in China, in September 2011. First phase of the fund is expected to reach RMB 6 billion (US$950 million). In December 2011, final closing of China Infrastructure Partners, L.P. was completed with US$425 million of capital commitment. The fund primarily invested in infrastructure and related sectors in China.

In the "Asia Asset Management – Best of the Best Awards 2011", BOCI-Prudential won the following awards:

- BOC-Prudential Stable Fund won the "Hong Kong, Best MPF Manager, 5 Years"

- BOC-Prudential Stable Fund won the "Hong Kong, Best MPF Manager, Since Launch"

In the "Benchmark Fund of the Year Awards 2011", BOCI-Prudential won the following awards:

- W.I.S.E. – CSI HK100 Tracker won the "Best-in-Class Hong Kong Equity – ETF"

Recognition for BOCI Securities:

- Received the Best Bank Capital Bond Award in The Asset Triple A Regional Awards organized by The Asset.

- Sino Ocean Land USD900mn 8% Perpetual Subordinated Convertible Securities in which BOCI act as the joint lead managers and bookrunner received the Equities Deal of the Year in Asia-Pacific Award in the Deals of the Year 2011 organized by the Banker Magazine.

- Obtained the Best China Investment Bank Securities Company in the China Best Security Company Awards organized by 21st Century Business Herald.

Competition

BOCI Group faces intense competition in all aspects of our businesses from investment banking firms, certain commercial banks and other investment services firms. In addition, the trend towards consolidation in the global financial services industry is creating competitors with broader range of products and services, increased access to capital, and greater efficiency and pricing power.

Risk Management

Risk is an integral part of the BOCI Group's business. Risk management and good corporate governance are critical to BOCI Group's profitability and business decision making process. Strong, independent and prudent management is exercised throughout the BOCI Group in order to manage the risks associated with the BOCI Group's business, such as market risks, operational risks, business risks and credit risks. We are a wholly owned subsidiary of BOCI and our risks are managed at the BOCI Group level. The BOCI Group has established risk control procedures at various levels of its business. Within the BOCI Group's risk management system, business managers have the first line of responsibility for managing business risk within certain prescribed limits based on their in depth understanding of the primary sources of risk in their particular business.

Risk Management System

The BOCI Group's risk management system seeks to maximise returns while maintaining a strong and prudent management of risks by promoting transparency in its risk assessment and management processes.

The BOCI Group's risk management system consists of the following main components:

(i) The Board of BOCI

The board of BOCI is responsible for setting the fundamental strategic goals and risk vision of the BOCI Group. The board of BOCI appoints the Risk Management Committee and the Audit Committee which assist the board in overseeing the BOCI Group's risk management functions.

(ii) The Committees

The Executive Committee is comprised of the Chief Executive Officer, Deputy Chief Executive Officers, Chief Operating Officer, Head of Equity Sales & Research, Head of Financial Product and Head of Investment Banking all from the BOCI Group. It is also responsible for the appointment and oversight of the Risk Control Committee and the Commitment Committee. Both the Risk Control Committee and the Commitment Committee hold ad-hoc meetings to deal with risk issues or underwriting and financial advisory business activities as they arise.

The Risk Control Committee is responsible for overseeing the risk management process of the BOCI Group and is responsible for:

- managing exposures to market, credit, country, financial liquidity, legal compliance and operational risks;
- evaluating and approving BOCI's internal risk limits and delegations according to the authorization as set by the Board;
- supervising and coordinating the company's risk management activities, reviewing the completeness and effectiveness of BOCI's risk management infrastructures, and facilitating the building of the company's risk culture;
- monitoring BOCI's overall risk exposure and organizing investigations to any risk event that BOCI considers material;
- evaluating and approving new product and new business proposals in accordance to the policies and authorities delegated by the Board; proposals for new business are generally required to be submitted to RMC and Board for final endorsement; and
- evaluating and approving significant transactions.

The Risk Control Committee is chaired by the Chief Risk Officer of the BOCI Group and is comprised of senior management of the major functional areas.

The Commitment Committee is responsible for overseeing the BOCI Group's underwriting and financial advisory business activities and is comprised of senior management representing both the business and support units.

(iii) Risk Control Functions

The segregation of duties and the integrity of operating systems within the BOCI Group are two basic features of the BOCI Group's practice. Control and support units such as finance and treasury, risk management, legal and compliance, human resources, operations and information technology are independent of the business reporting lines. These units contribute to the BOCI Group's risk management system through their complementary reporting and control functions whilst the Risk Management Division itself evaluates and monitors the market, credit and operational frontline risk exposure.

The Risk Management Division operates separately and independently from the divisions of the BOCI Group and monitors, analyses and reports risk exposures of the BOCI Group to senior management and various business units. The Risk Management Division also provides analysis on counterparties' creditworthiness, approves transactions that exceed risk limits and continuously monitors the BOCI Group's transactions risk profile and risk concentration in light of market fluctuation.

In addition, the Risk Management Division is responsible for promoting a "risk awareness" culture within the BOCI Group so that risks control policies are implemented fully. In conjunction with this, BOCI Group also regularly has comprehensive internal and external audits of all aspects of its business operations.

Risk Control Process

There are five critical elements in the independent risk control process of the BOCI Group. The features of each element are described as follows:

- *Risk Identification:* seeks to identify risks, particularly in new businesses, new products or new markets and in complex or unusual transactions. Every effort is made to identify risks that should not be assumed prior to proceeding with a transaction;

- *Risk Measurement:* uses approved and independently validated methodologies and models to quantify risks in respect of products that are on the balance sheet and those that are off the balance sheet;

- *Risk Policies:* adopts policies which are consistent with the BOCI Group's risk vision and the evolving business requirements and international best practices. Policies are continuously reviewed to account for changes in market circumstances and the BOCI Group's business areas;

- *Risk Reporting:* reports are presented to management at all levels in accordance with the risk control framework, and where applicable, risk limits. A centralised risk management system that covers the whole of the BOCI Group is maintained to facilitate risk assessment from a group-wide perspective. The system is supported by sound channels of communication to ensure a consistent approach across all operating areas;

- *Risk Control and Hedge:* enforces compliance with the established risk management principles, policies and limits. The BOCI Group maintains a diversified business portfolio and manages appropriate exposure in all business areas within relevant limits.

Overview of the BOCI Group's Risk Management System and Policies

(1) Market Risk

Market risk is the exposure to adverse changes in the BOCI Group's trading portfolios as a result of market volatility. Market risks are encountered in various business units of the BOCI Group including underwriting, market making, proprietary trading, principal investment. The BOCI Group is exposed to the following risks in each of the markets in which it trades:

- *Foreign exchange* – changes in spot and forward exchange rates and the volatility of exchange rates;

- *Equities markets* – changes in the price and volatility of equities and their indices; and

- *Fixed income markets* – changes in the price and volatility of fixed income products such as bonds, interest rate products, certificates of deposit, commercial paper and derivatives.

- *Commodities markets* – changes in the spot and forward prices and volatility of commodities.

Market Risk Management

BOCI Group uses "Sophis Risque" as its front office market risk monitoring system for its equity and fixed income trading. Operation and settlement staff reconcile positions and product information from Sophis Risque against various settlement systems. The Risk Management Division then produces daily profit and loss reports based on the reconciled data. Together with our market risk system-Riskmetrics, it provides a platform for the Risk Management Division to produce the relevant risk exposure reports.

Market Risk Measurement and Capital Adequacy

The Risk Management Division measures the BOCI Group's exposures in all markets for each dealing desk and in the aggregate markets. Risk exposures are measured on derivatives and underlying assets and liabilities in the same market together.

Market risk limits are set by the BOCI Group as follows:

- *Value at Risk measure* ("***VAR***") estimates the potential change in portfolio value against a given level of statistical confidence over a pre-defined holding period. VAR is calculated using a one-day time period and a 99% confidence interval. This means that under normal market conditions, the BOCI Group would only expect to incur losses greater than those predicted by VAR estimates once in every 100 trading days, or about 2.5 times each year.

- *Stress analysis* provides useful insights into the changes in portfolio values in the event of large movements in key market variables. The BOCI Group performs stress analysis by repricing inventory positions for absolute and relative movements of the market variables and estimates the revenue implications by the repricing in a "worst case scenario". Stress analysis considers the BOCI Group's exposure to unlikely but possible events that might arise under abnormal market conditions and also provides useful data to the BOCI Group's management in order to develop contingency plans in accordance with the risk tolerance of the BOCI Group.

Market Risk Limit Approval Structure & Monitoring

VAR and Stress limits are the primary risk limits adopted by the Group and reflects how much the trading business can lose under normal and extreme market situations. These limits represent the risk appetite of the Group and are approved by Risk Management Committee and the Board. Risk Management Committee is a board sub-committee which may allocate a smaller limit to the Group considering the usage of the limits. On a business level, Risk Control Committee allocates the VAR and Stress sub-limits to each business unit according to the overall limits approved by RMC and the Board. All business units are expected to maintain risk exposures within their risk limits. If a limit is exceeded, the business unit is responsible for immediately reducing exposure to a level within the applicable limit. Subject to prevailing business conditions, the head of the business unit may seek approval from the limit approval authority for a temporary extension of any limits that may have been exceeded. Comprehensive reports (including reasons and proposed excess duration) that evidence such limit excesses are filed for future reference to facilitate subsequent reviews by internal auditors, external auditors, regulatory and compliance supervisors and other relevant parties.

The aforesaid limits are supplemented with restrictions on concentration risk, portfolio notional size and country risks. The Risk Management Division is responsible for monitoring the risk limits of the BOCI Group.

Periodic Market Risk Reporting

Regular market risk reports are produced by the Risk Management Division to provide information to senior management within the BOCI Group in order to assess the changing nature of the market risk profile and the trading performance of the BOCI Group. Market risk reports will also be produced on demand as market conditions require and the BOCI Group maintains a variety of separate but complementary reporting systems throughout its business, control and support functions.

Market risk reports provide the following information:

- Risk exposures, limit excesses and action taken;
- Results of stress analysis and VAR estimates in portfolio values;
- Large open position exposure and concentration risk; and
- Current market updates that would significantly change the risk profile.

In addition to the above, commentaries on limit excesses, significant changes in risk profile, risk concentrations and comparison of risk profiles with expected market movements may be included in the market risk reports.

(2) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel and systems, or from external events. It includes the risk of failing to comply with applicable laws, regulations and other BOC International internal policies. Operational risk could lead to reputation damage, financial loss or regulatory sanctions. Examples of operational risk include major failures and destructive events of information technology systems.

Operational Risk Management

The BOCI Group manages operational risk by establishing clear policies and employing sufficient human and technological resources. Besides, critical risks are properly identified before consideration of the effectiveness of the controls or other mitigation factors. Controls over operational risk are designed to ensure that all relevant transactions are appropriately done throughout the whole recording and reconciliation process. All transactions must be accurately recorded and properly reflected in the internal systems and records on a timely basis. Policies and procedures are reviewed and updated in light of changing market circumstances and regulatory requirements.

The managers of strategic business and support units within the BOCI Group are primarily responsible for supervising their own team members to ensure that the control standards established by the risk committees are met and applicable laws and regulations are fully complied with. To further enhance corporate governance, the Risk Management Division is responsible for overseeing and coordinating the implementation of the operational risk management framework within the BOCI Group. The division is also responsible for developing operational risk management policies and procedures for identifying, assessing and monitoring operational risk.

Operational Risk Measurement

In terms of the qualitative approach, continuing risk awareness communication and development programmes are in place. In particular, each business and support departments within the BOCI Group carries out a formal operational risk and control assessment periodically. Based on the assessment results, the corresponding units develop adequate and effective control measures to further mitigate operational risks on a continuous basis. Quantitatively, business and supporting departments have to report all operational risk events to the operational risk event database so as to facilitate the recording of the operational loss event data. Risk Management Division can then review the risk events and escalate to senior management for any significant operational risk events and make recommendations on mitigation measures. Managing through a combination of quantitative and qualitative risk measures, the BOCI Group strives to ensure that any new operational risks are identified and dealt with in a pro-active manner whilst existing operational risks are regularly reviewed and accounted for.

(3) Credit Risk

Credit risk is the risk of loss as a result of the borrower, the trading counterparty or an issuer of debt securities being unable or unwilling to perform its obligations in a transaction. Such a breach would include a failure to make payment of principal and interest, settlement of derivatives transactions, repurchase agreements and securities purchases/sales.

Example of Credit Risk

The BOCI Group is exposed to various kinds of credit risk across its different business lines and operations. Credit risk management monitors not only current positions but also potential credit exposures derived from market movements in derivatives transactions. Over-the-counter ("**OTC**") Derivatives Credit Risk – i.e. the risk that a counterparty in an OTC, transaction (such as a forward) is unable or unwilling to perform its contractual obligations. Such risk exposure is measured using a potential value of the market movement of the underlying product, over the product's life. Netting and collateralisation techniques are applied to reduce credit risk exposure to its counterparties.

Cash and Margin Settlement Risk – i.e. the risk that a client either fails to deposit cash or other assets after a transaction is executed or fails to match a margin call arising from its derivative and/or securities position. Potential losses are determined by the market movements of underlying securities.

To manage credit risks associated with BOCI Group's trading, commodities, brokerage and private banking businesses, the Risk Management Division has established formal credit policies and guidelines and clear principles for conducting such businesses. Such guidelines establish credit limits and approval processes via the delegation of credit authorities to different business units.

Credit Risk Management

The BOCI Group performs its credit risk management by establishing credit policies and guidelines, managing credit exposures by business professionals, monitoring collateral value and limit excess by independent control functions. Credit risk management begins with the overall limits as approved by the Risk Management Committee (a board sub-committee) and the Board. At the working level, there are two risk committees appointed by the Executive Committee. The Risk Control Committee formulates the BOCI Group's credit policy and credit limit structure and oversees the credit risk profile. The Commitment Committee reviews the credit exposure in relation to the underwriting and financial advisory businesses. Credit limits are assigned to each debtor or counterparty based on many factors that influence default probability. The credit limits are reviewed regularly. All divisions/departments within the BOCI Group are required to monitor and adhere to applicable credit limits at all times. Where a credit limit is violated, the credit risk exposure is required to be reduced unless a temporary credit limit extension is obtained. The Risk Management Division, in conjunction with other units, evaluates and monitors the limits of credit risk exposures. Periodic credit risk reports are produced by the Risk Management Division to provide senior management with limit usage information and changes in the creditworthiness of its borrowers and counterparties.

Credit Risk Measurement

The BOCI Group assesses the credit profiles of its debtors or counterparties by analysing many factors that influence credit worthiness, including (but not limited to) a counterparty's financial profile, business prospects and management, macroeconomic development, industrial and sovereign risk, and historical obligation performance.

To reduce its credit exposure, the BOCI Group seeks to enter into netting agreements with counterparties that permit it to offset receivables and payables with such counterparties. Netting is mainly achieved by utilising the International Swap Dealers Association (ISDA) master agreement over-the-counter (OTC) derivative counterparties dealing OTC swaps, equity and commodities.

As part of the credit approval process, the Risk Management Division 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 BOCI Group's exposure and the legal ability to apply such collateral.

(4) Liquidity Risk

The Liquidity risk is the risk that BOCI 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. Finance & Treasury Division 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 Group measures and monitors their net funding requirements by constructing maturity profile that projects future cash flows arising from assets, liabilities and off balance sheet transactions. The Board sets liquidity ratios and limits on the mismatch, which are taken to control liquidity risks due to asset-liabilities mismatch. Stress test for liquidity will be conducted regularly to assess BOCI Group's capability to withstand during liquidity crisis. Appropriate actions are planned to handle liquidity situation in case of liquidity concerns being crystallised.

BOCI Group continuously enlarges the funding capacity and diversifies the funding sources for a balanced liquidity management framework. Apart from funding sourced within Bank of China Group, the credit facilities granted by commercial banks are also acquired. Securities borrowing and lending provides additional source of funding as well.

(5) Legal and Compliance Risk

Senior management of BOCI Group has the ultimate responsibility to ensure legal and compliance risk is managed in a controlled manner with the assistance of the compliance function, which exercises independent oversight and control over the business activities of BOCI Group. The compliance function is set up primarily to assist senior management to establish an effective process where there is reasonable assurance that business practices comply with the relevant laws and regulations and that material legal and compliance risk is identified, monitored and reported to senior management timely. The process includes, but are not limited, to the following:

- oversight of senior management through regular reporting;

- implementation of relevant and effective policies, controls and procedures;

- use of monitoring and testing programs on the BOCI Group's business activities;

- conduct of appropriate compliance training programs; and

- effective interaction with other control functions for early identification of relevant risks in new and existing business processes.

Management and Supervision

BOCI Group's Level

The BOCI Group is managed by (i) the board of BOCI under which it has four committees: the Risk Management Committee, the Human Resources and Remuneration Committee, the Audit Committee and the Strategy Development Committee; and (ii) the Chief Executive Officer ("**CEO**") and his executive management team which mainly includes other members of the Executive Committee.

While the board and committees of BOCI supervise and oversee the BOCI Group's management and policies, the CEO supervises and oversees the day-to-day operations of the BOCI Group's business. As we are wholly-owned by BOCI, BOCI oversees the operation of our Board of Directors as well as our risk management processes.

Our Level

We are managed by a Board of Directors, members of which are as follows:

Cao Yuanzheng. Apart from being the Managing Director of BOCI, Mr. Cao is also a Director of our affiliate, BOC International (China) Limited. Having joined BOCI in 1998 he is presently its Chief Economist. Before joining BOCI, Mr Cao has held senior positions in research and academia, including being an Executive Director of SCRE Academy of Chinese Economic System Reform (now known as the "State Commission for Economic System Restructuring of the People's Republic of China"), Head of the Bureau of International Economic Comparison of SCRE, the Deputy Head & Research Fellow of the Research Institute of Chinese Economic System Reform, Doctoral Supervisor of People's University of China, Visiting Professor at Southern California University, Professor of Chinese Economic Research Center of Tsinghua University and Beijing University and the Deputy General Secretary of the China Association of Macro Economy. Mr. Cao obtained his Post Doctoral qualifications in Technical Economics from Darmstadt University in Germany and a Doctorate of Economics from the People's University of China. He also holds a Master degree in Economics from Wuhan University and a Bachelors degree from Xi'an Foreign Language Institute.

Daniel Ng Meng Hua. Apart from being our Managing Director, Mr. Ng is also our Head of Corporate Finance, Head of Mergers of Acquisitions and Vice Chairman of the Investment Banking Division. In June 2009, Mr. Ng was appointed a member of the Listing Committee of the Main Board and the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Mr. Ng has more than 21 years of investment banking experience. Prior to joining BOCI, Mr. Ng worked as an investment banker, specialising in corporate finance for a number of investment banks, including Schroders Asia Limited, Bear Stearns and Standard Chartered Asia. Mr. Ng was also a Director at KPMG Corporate Finance. Mr. Ng holds a Master of Laws degree from Northwestern University Law School, an MBA from the University of Rochester and a BSc in Business Administration from Indiana University (Bloomington). He has also completed the Financial Management Program at Harvard Business School.

Tse Yung Hoi. Apart from being our Managing Director, Mr. Tse is also the Deputy CEO of BOCI. Mr. Tse has more than 18 years of management experience. Prior to joining BOCI, Mr. Tse was the Deputy General Manager of the Treasury Department of Bank of China (Head Office) in Beijing. Mr. Tse holds a Bachelor of Arts degree from Fudan University of Shanghai.

Chan Wing Chiu. Mr. Chan is our Managing Director and the Head of Equity Derivatives of BOCI Securities Limited and has more than 15 years of trading experience in both cash equities and equity derivatives. Prior to joining the BOCI Group, he held various senior positions in various investment banks including Deutsche Bank, Barclays Bank and Credit Suisse First Boston. Mr. Chan holds an Accounting Bachelors degree in Idaho State University.

Wong Andrew Chung Lap. Prior to joining BOCI in 2007 as Global Head of Investment Banking, Mr. Wong had worked in the investment banking divisions and equity capital markets in Morgan Stanley, Morgan Grenfell and ING Barings in New York, London and Hong Kong. In addition to his extensive experience in equity capital raising and M&A transactions in the U.S., Europe and Asia (incl. Korea, Thailand, Indonesia and Taiwan), Mr. Wong has participated in China's international equity fund raising activities since its market was first opened in late 1991. He has been focusing primarily on the Hong Kong/China capital markets and M&A activities since mid 1990s.

Mr. Wong earned his MBA at Harvard Business School. He also has a Master and a Ph.D degree in Chemistry from Case Western Reserve University and a Bachelor's degree from Davidson College, all in the US.

Wan Siu Wah Wilson. Mr. Wan is a Managing Director of BOC International Holdings Limited. He established and heads the Leveraged and Structured Finance Division for BOCI since mid-2007. Before joining BOCI, he was the Assistant General Manager and Head of Corporate Banking Department of the Industrial and Commercial Bank of China (Asia) Limited. By now, he has over 28 years experience in the banking industry. Currently he is the Vice Chairman of the Asia Pacific Loan Market Association and chairs the China Sub-Committee. He holds an MBA from University of Pittsburgh, USA as well as a BBA from the Chinese University of Hong Kong.

All of the Directors listed above (except Mr. Cao Yuanzheng) are licensed with the Securities and Futures Commission as Responsible Officers.

The business address of the Directors listed above (except Mr. Cao Yuanzheng) is 26/F., Bank of China Tower, 1 Garden Road, Hong Kong. Mr. Cao's business address is 15/F, Tower 2, Yingtai Business Centre, No. 28, Finance Street, Xicheng District, Beijing 100032, the People's Republic of China.

General Meetings of Shareholders

The annual general meeting of our shareholders is held in each calendar year at such time and place as our Directors shall appoint.

At any general meeting, every question shall be decided either by a show of hands or by a poll and upon a poll every member present in person or by proxy shall have the vote for every share held by him. Resolutions proposed at annual general meetings of shareholders require a clear majority of the votes cast or, in the case of a resolution to dissolve us or to amend our articles, a majority of three-quarters of the votes cast in a meeting where at least three-quarters of the issued shares are represented.

APPENDIX 1
TERMS AND CONDITIONS OF
CASH-SETTLED WARRANTS OVER SINGLE EQUITIES

These Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document, subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1. Form, Status, Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Shares of the Company are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the supplemental listing document) executed by BOCI Asia Limited (the "**Issuer**"). The Warrantholder (as defined below) is entitled to the benefit of, is bound by and is deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of the Agent as specified below.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) ("**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

References in these Conditions to "**Shares**" shall be a reference to the shares of the Company.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on the Stock Exchange shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2. Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon due exercise and upon compliance with these Conditions, in particular Condition 3, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholder will be required to pay the Exercise Expenses. To effect such payment an amount equivalent to the Exercise Expenses shall be deducted from the Cash Settlement Amount in accordance with Condition 3(F).

(C) For the purposes of these Conditions:

"**Average Price**" shall be the arithmetic mean of the closing prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, for every Board Lot:

(i) in the case of a series of Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(ii) in the case of a series of Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being

closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the relevant bank account designated by the relevant Warrantholder ("**Designated Bank Account**");

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means, subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date.

3. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Any Warrants shall be automatically exercised on the Expiry Date, without notice to the Warrantholder if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) is positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in Condition 3(F) below.

Any Warrant which has not been exercised in accordance with this Condition shall expire immediately thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholder in accordance with Condition 3, shall be notified to the Warrantholder as soon as practicable after determination thereof by the Issuer and shall be paid by the Warrantholder to the Issuer immediately upon demand.

(D) An irrevocable authorisation is deemed to be given to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to the exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Warrantholder from the register of Warrantholders in respect of the Warrants which are the subject of the exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and destroy the Global Warrant Certificate.

(F) Upon the exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus any determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus any determined aggregate Exercise Expenses shall be despatched no later than the third CCASS Settlement Day following the Expiry Date ("**Settlement Date**") to the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

(G) If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of the Settlement Disruption Event.

(H) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent or nominee and the Warrantholder and neither the Issuer nor its agent or nominee shall owe any duty of fiduciary nature to the Warrantholder.

None of the Issuer or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

(I) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(F) above.

4. Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 9.

5. Adjustments

Adjustments may be made by the Issuer on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares *pro rata* to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted on the Business Day on which the trading in the Shares of the Company becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E = Existing Entitlement immediately prior to the Rights Offer

S = Cum-Rights Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis

R = Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M = Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment of the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**"), the Entitlement shall be adjusted on the Business Day on which trading in the Shares of the Company becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E = Existing Entitlement immediately prior to the Bonus Issue

N = Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment of the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events*. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger or consolidation) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (the "**Substituted Securities**") or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Cash Distribution*. Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor x E}$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

S: The closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment of the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

(F) *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

6. Purchase by the Issuer

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

7. Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of the Nominee. The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

8. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 percent of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 percent of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholder, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is: (i) not materially prejudicial to the interests of the Warrantholder generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of Hong Kong Exchanges and Clearing Limited, www.hkex.com.hk.

10. Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

12. Delisting of Company

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of the Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any such adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 9 as soon as practicable after they are determined.

13. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

14. Taxation

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or exercise of any Warrants.

15. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

16. Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the office of the Agent. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent

BOCI Securities Limited
20/F, Bank of China Tower
1 Garden Road
Hong Kong

TERMS AND CONDITIONS OF CASH-SETTLED INDEX WARRANTS

These Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document, subject to completion and amendment, be endorsed on the back of the global warrant certificate. The applicable supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1. Form, Status, Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 10) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the supplemental listing document) executed by BOCI Asia Limited (the "**Issuer**"). The Warrantholder (as defined below) is entitled to the benefit of, is bound by and is deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of the Agent as specified below.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) ("**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on the Stock Exchange shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2. Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon due exercise and upon compliance with these Conditions, in particular Condition 3, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholder will be required to pay the Exercise Expenses. To effect such payment an amount equivalent to the Exercise Expenses shall be deducted from the Cash Settlement Amount in accordance with Condition 3(F).

(C) For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, for every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and if, appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

In respect of Index Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

In respect of Index Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

(i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or

(ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

(iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (1), (i) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (ii) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the relevant bank account designated by the relevant Warrantholder ("**Designated Bank Account**");

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document.

3. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Any Warrants shall be automatically exercised on the Expiry Date, without notice to the Warrantholder if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) is positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in Condition 3(F) below.

Any Warrant which has not been exercised in accordance with this Condition shall expire immediately thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) Any Exercise Expenses which were not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholder in accordance with Condition 3, shall be notified to the Warrantholder as soon as practicable after determination thereof by the Issuer and shall be paid by the Warrantholder to the Issuer immediately upon demand.

(D) An irrevocable authorisation is deemed to be given to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to the exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Warrantholder from the register of Warrantholders in respect of the Warrants which are the subject of the exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and destroy the Global Warrant Certificate.

(F) Upon the exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus any determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus any determined aggregate Exercise Expenses shall be despatched no later than the third CCASS Settlement Day following the Expiry Date ("**Settlement Date**") to the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but will not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

(G) If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of the Settlement Disruption Event.

(H) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent or nominee and the Warrantholder and neither the Issuer nor its agent or nominee shall owe any duty of fiduciary nature to the Warrantholder.

None of the Issuer or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

(I) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(F) above.

4. Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 9.

5. Adjustments to the Index

(A) *Successor Index Compiler Calculates and Reports Index*. If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer; or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(B) *Modification and Cessation of Calculation of Index*. If (i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or (ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to the change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(D) All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Agent will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 9.

6. Purchase by the Issuer

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

7. Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of the Nominee. The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

8. Meetings of Warrantholder and Modification

(A) *Meetings of Warrantholders*. Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Warrantholder shall be decided by poll. A meeting may be convened by the Issuer or by the Warrantholder holding not less than 10 percent of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 percent of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholder whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholder as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholder shall be binding on all the holders of the Warrants, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholder being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholder, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is: (i) not materially prejudicial to the interests of the Warrantholder generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholder and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of Hong Kong Exchanges and Clearing Limited, www.hkex.com.hk.

10. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholder, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

11. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

12. Taxation

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or exercise of any Warrants.

13. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

14. Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent

BOCI Securities Limited
20/F, Bank of China Tower
1 Garden Road
Hong Kong

TERMS AND CONDITIONS OF CASH-SETTLED WARRANTS OVER SINGLE UNIT TRUSTS

These Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document, and subject to completion and amendment, be endorsed on the back of the global warrant certificate. The relevant supplemental listing document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants. Capitalised terms used in these Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1. Form, Status, Transfer and Title

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Units of the Trust are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the supplemental listing document) executed by BOCI Asia Limited (the "**Issuer**"). The Warrantholder (as defined below) is entitled to the benefit of, is bound by and is deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of the Agent as specified below.

The Warrants are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer and the Agent as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" shall be construed accordingly.

(E) Trading in Warrants on the Stock Exchange shall be suspended prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

2. Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholder, upon due exercise and upon compliance with these Conditions, in particular Condition 3, to payment of the Cash Settlement Amount (as defined below), if any.

(B) Upon exercise of the Warrants, the Warrantholder will be required to pay the Exercise Expenses. To effect such payment an amount equivalent to the Exercise Expenses shall be deducted from the Cash Settlement Amount in accordance with Condition 3(F).

(C) For the purposes of these Conditions:

"**Average Price**" shall be the arithmetic mean of the closing prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) for each Valuation Date;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, for every Board Lot:

(i) in the case of a series of Call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(ii) in the case of a series of Put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Units; or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the

Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the relevant bank account designated by the relevant Warrantholder ("**Designated Bank Account**");

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Trust**" means the trust specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means, subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date.

3. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) Any Warrants shall be automatically exercised on the Expiry Date, without notice to the Warrantholder if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) is positive. In respect of each Board Lot, the Cash Settlement Amount shall be paid in the manner set out in Condition 3(F) below.

Any Warrant which has not been exercised in accordance with this Condition shall expire immediately thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

(C) Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholder in accordance with this Condition 3, shall be notified to the Warrantholder as soon as practicable after determination thereof by the Issuer and shall be paid by the Warrantholder to the Issuer immediately upon demand.

(D) An irrevocable authorisation is deemed to be given to the Issuer to deduct the determined Exercise Expenses from the Cash Settlement Amount.

(E) Subject to the exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of the Warrantholder from the register of Warrantholders in respect of the Warrants which are the subject of the exercise or have expired worthless, as the case may be, and thereby cancel the relevant Warrants and, if applicable, cancel the Global Warrant Certificate.

(F) Upon the exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus any determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus any determined aggregate Exercise Expenses shall be despatched no later than the third CCASS Settlement Day following the Expiry Date ("**Settlement Date**") to the Warrantholder as appearing in the register kept by or on behalf of the Issuer.

If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of a Valuation Date as aforesaid would result in a Valuation Date falling on or after the Expiry Date, then:

(i) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

(G) If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of the Settlement Disruption Event.

(H) These Conditions shall not be construed so as to give rise to any relationship of agency or trust between the Issuer or its agent or nominee and the Warrantholder and neither the Issuer nor its agent or nominee shall owe any duty of fiduciary nature to the Warrantholder. None of the Issuer or the Agent shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these terms and conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

(I) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(F) above.

4. Agent

(A) The Agent will be acting as agent of the Issuer in respect of the Warrants and will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholder.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholder in accordance with Condition 9.

5. Adjustments

Adjustments may be made by the Issuer on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a “**Rights Offer**”), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement (“**Rights Issue Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

“**Rights**” means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Entitlement shall be adjusted on the Business Day on which trading in the Units becomes ex-entitlement (“**Bonus Issue Adjustment Date**”) in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Units held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events*. If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to, or may, sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this paragraph and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) *Cash Distribution*. Generally, no adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the OD shall be zero if the date on which the Units are traded on an ex-Ordinary Distribution basis is not the Cash Distribution Adjustment Date

S: The closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the Business Day immediately preceding the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying it by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. The adjustment of the Exercise Price shall take effect on the Cash Distribution Adjustment Date.

(F) *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholder. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

6. Purchase by the Issuer

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

7. Global Warrant Certificate

A global warrant certificate (the "**Global Warrant Certificate**") representing the Warrants will be deposited within CCASS and registered in the name of the Nominee. The Global Warrant Certificate will not be exchangeable for definitive warrant certificates.

8. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. Notices for convening meetings to consider any matter affecting the Warrantholder's interests will be given to the Warrantholder in accordance with the provisions of Condition 9.

Every question submitted to a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Warrantholder) holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons (including any nominee appointed by the Warrantholder) being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is: (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Agent as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices in English and Chinese to the Warrantholder will be validly given if published on the website of Hong Kong Exchanges and Clearing Limited, www.hkex.com.hk.

10. Liquidation

In the event of a liquidation or dissolution of the trustee of the Trust or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose, in the case of a voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants, upon such terms as to issue price, commencement of the exercise period and otherwise as the Issuer may determine so as to form a single series with the Warrants.

12. Delisting

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholder generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholder, make such adjustments to the entitlements of the Warrantholder on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any such adjustment or amendment and its determination shall be conclusive and binding on the Warrantholder save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholder in accordance with Condition 9 as soon as practicable after they are determined.

13. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the Warrants in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

14. Taxation

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or exercise of any Warrants.

15. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

16. Governing Law

The Warrants and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**").

The Issuer and the Warrantholder (by its acquisition of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the office of the Agent. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent

BOCI Securities Limited
20/F, Bank of China Tower
1 Garden Road
Hong Kong

TERMS AND CONDITIONS OF CASH-SETTLED EQUITY CALLABLE BULL/BEAR CONTRACTS

These Conditions will, together with the supplemental provision contained in the relevant supplemental listing document, subject to completion and amendment, be endorsed on the back of global certificate. The relevant supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1. Form, Status, Transfer and Title

(A) The callable bull/bear contracts or CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the supplemental listing document) executed by BOCI Asia Limited (the "**Issuer**"). The Holder (as defined below) is entitled to the benefit of, is bound by and is deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of the Agent as specified below.

The CBBCs are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) ("**Nominee**"). No definitive certificate will be issued. The CBBCs can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the CBBCs represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligation accorded preference by mandatory provisions of applicable law.

The CBBCs represent general contractual obligation of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfer of CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer and the Agent as the absolute owner and holder of the CBBCs. The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on the Stock Exchange shall be suspended immediately upon the occurrence of a Mandatory Call Event (in which case all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange) or at the close of trading for the Trading Day immediately preceding the Expiry Date (whichever is earlier) in accordance with the requirements of the Stock Exchange.

2. CBBC Rights and Exercise Expenses

(A) Every Board Lot entitles the Holder, upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount.

(B) The Holders will be required to pay the Exercise Expenses resulting from the early termination of the CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs at expiry. To effect such payment an amount equivalent to the Exercise Expenses shall be deducted from the Cash Settlement Amount in accordance with Condition 4.

(C) For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, for every Board Lot:

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in respect of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the respect of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing price as may be necessary to reflect any capitalization, rights issue, distribution or the like) on the Valuation Date;

"**Entitlement**" has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early termination of CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs upon expiry;

"**Mandatory Call Date**" means the Trading Day during the Observation Period on which a Mandatory Call Event occurs;

"**Mandatory Call Event**" occurs when the Spot Price of the Shares on any Trading Day during the Observation Period is:

(a) in respect of a series of bull CBBCs, at or below the Call Price; or

(b) in respect of a series of bear CBBCs, at or above the Call Price;

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case where the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Shares during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed.

In that case (1) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period, and (2) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purpose of this definition:

(1) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(2) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Shares during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period from (and including) the Observation Commencement Date to (and including) the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Residual Value**" means, for every Board Lot:

(i) in respect of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in respect of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the relevant bank account designated by the relevant Holder ("**Designated Bank Account**");

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price ("**IEP**") (as defined in the Trading Rules) of the Shares (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time; and

"**Valuation Date**" means, subject as provided below in relation to a Market Disruption Event, the Trading Day immediately preceding the Expiry Date.

3. Exercise of CBBCs, Mandatory Call Event, Automatic Exercise and Expiry

(A) The CBBCs are exercisable on the Expiry Date, provided that a Mandatory Call Event has not occurred.

(B) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the Mandatory Call Date. Any CBBC in respect of which a Mandatory Call Event has occurred will entitle the Holder to receive the Cash Settlement Amount (if any) in accordance with Condition 4(D).

(C) Any CBBC which has not automatically terminated on a Mandatory Call Date will automatically be exercised if, on the Expiry Date, the value of the Cash Settlement Amount is greater than zero (without prior notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) in accordance with Condition 4(D).

(D) For the avoidance of doubt, where the CBBCs have been exercised on the Expiry Date or have automatically terminated on a Mandatory Call Date (as the case may be), payment of the Cash Settlement Amount (if any) shall constitute full and final settlement of the obligations of the Issuer with respect to the CBBCs. Subject to such payment having been made, the Issuer shall have no obligation towards the relevant Holder under the CBBCs subsequent to such Expiry Date or Mandatory Call Date (as the case may be).

(E) Any CBBC which has not been automatically terminated or which has not been automatically exercised in accordance with Condition 3(B) or Condition 3(C) (as the case may be) shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such CBBC shall cease.

4. Exercise of CBBCs, Cancellation and Payment

(A) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(B) The Holders will not be required to deliver an exercise notice for any purpose in relation to the CBBCs.

(C) The Issuer will with effect from the first Business Day following the Mandatory Call Date or the Expiry Date (as the case may be), remove from its register the name of the person in respect of the CBBCs which (i) are the subject of an occurrence of a Mandatory Call Event; (ii) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions; or (iii) have expired worthless, and thereby cancel the relevant CBBCs.

(D) Subject to automatic exercise of CBBCs or the occurrence of a Mandatory Call Event in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount minus any determined

Exercise Expenses. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The Cash Settlement Amount minus any determined Exercise Expenses shall be dispatched not later than the third CCASS Settlement Day following the end of the MCE Valuation Period or the Valuation Date, as the case may be ("**Settlement Date**") by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then that Valuation Date shall be postponed to the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date that, but for the Market Disruption Event, would have been the Valuation Date. In that case (i) that fourth Trading Day immediately following such original date shall be deemed to be the Valuation Date, notwithstanding the Market Disruption Event, and (ii) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

5. Agent

(A) The Agent will be acting as agent of the Issuer in respect of any CBBCs and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with Condition 11.

6. Adjustments

Adjustments may be made by the Issuer on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Trading Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. Such adjustments shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalization of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be adjusted on the Business Day on which trading in the Shares of the Company becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Factor x E

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. Such adjustments shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the relevant Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events*. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (D) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Cash Distribution*. Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor x E}$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the OD shall be zero if the date on which the Shares are traded on an ex-Ordinary Dividend basis is not the Cash Distribution Adjustment Date

S: The closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the Trading Day immediately preceding the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. These adjustment shall take effect on the Cash Distribution Adjustment Date.

(F) *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

7. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

8. Purchases by the Issuer

The Issuer and/or any of its subsidiaries may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of the Nominee. The Global Certificate will not be exchangeable for definitive certificates.

10. Meetings of Holders and Modification

(A) *Meetings of Holders*. Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 11.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 percent of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 percent of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is: (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction), (ii) of a formal, minor or technical nature, (iii) made to correct a manifest error, or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Agent before the effective date or as soon as practicable thereafter in accordance with Condition 11.

11. Notices

All notices in English and Chinese to the Holder will be validly given if published on the website of Hong Kong Exchanges and Clearing Limited, www.hkex.com.hk.

12. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

13. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

14. Delisting

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 14(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on automatic expiry or exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong dollars) as it shall consider appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 11 as soon as practicable after they are determined.

15. Taxation

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or exercise of any CBBCs.

16. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

17. Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

18. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent

BOCI Securities Limited
20/F, Bank of China Tower
1 Garden Road
Hong Kong

TERMS AND CONDITIONS OF
CASH-SETTLED INDEX CALLABLE BULL/BEAR CONTRACTS

These Conditions will, together with the supplemental provisions contained in the relevant supplemental listing document, subject to completion and amendment, be endorsed on the back of global certificate. The relevant supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1. Form, Status, Transfer and Title

(A) The callable bull/bear contracts or CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the supplemental listing document) executed by BOCI Asia Limited (the "**Issuer**"). The Holder (as defined below) is entitled to the benefit of, is bound by and is deemed to have notice of all the provision of the Instrument. A copy of the Instrument is available for inspection at the offices of the Agent as specified below.

The CBBCs are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) ("**Nominee**"). No definitive certificate will be issued. The CBBCs can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the CBBCs represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligation accorded preference by mandatory provisions of applicable law.

The CBBCs represent general contractual obligation of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfer of CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer and the Agent as the absolute owner and holder of the CBBCs. The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on the Stock Exchange shall be suspended immediately upon the occurrence of a Mandatory Call Event (in which case all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange) or at the close of trading for the Trading Day immediately preceding the Expiry Date (whichever is earlier) in accordance with the requirements of the Stock Exchange.

2. CBBC Rights and Exercise Expenses

(A) Every Board Lot entitles the Holder, upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount.

(B) The Holders will be required to pay the Exercise Expenses resulting from the early termination of the CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs at expiry. To effect such payment an amount equivalent to the Exercise Expenses shall be deducted from the Cash Settlement Amount in accordance with Condition 4.

(C) For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, for every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and if, appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in respect of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(ii) in the respect of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early termination of CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs upon expiry;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" means the index exchange given to it in the relevant Supplemental Listing Document;

"**Mandatory Call Date**" means the Index Business Day during the Observation Period on which a Mandatory Call Event occurs;

"**Mandatory Call Event**" occurs when the Spot Level of the Index, at any time on any Index Business Day during the Observation Period is:

(a) in respect of a series of bull CBBCs, at or below the Call Level; or

(b) in respect of a series of bear CBBCs, at or above the Call Level;

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of

(i) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index; or

(ii) the suspension or material limitation of the trading of options of futures contracts relating to the Index on any exchanges on which such contracts are traded; or

(iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

For the purposes of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

(2) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for dealings for an entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

"**Maximum Index Level**" means the highest Spot Level of the Index during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call

Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purpose of this definition:

(1) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(2) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

"**Minimum Index Level**" means the lowest Spot Level of the Index during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period from (and including) the Observation Commencement Date to (and including) the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Residual Value**" means, for every Board Lot, an amount calculated by the Issuer in accordance with the following formula (and if, appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into the Settlement Currency at the Second Exchange Rate):

(i) in respect of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(ii) in respect of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the relevant bank account designated by the relevant Holder ("**Designated Bank Account**");

"**Spot Level**" means the spot level of the Index as compiled and published by the Index Compiler;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document.

3. Exercise of CBBCs, Mandatory Call Event, Automatic Exercise and Expiry

(A) The CBBCs are exercisable on the Expiry Date, provided that a Mandatory Call Event has not occurred.

(B) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the Mandatory Call Date. Any CBBC in respect of which a Mandatory Call Event has occurred will entitle the Holder to receive the Cash Settlement Amount (if any) in accordance with Condition 4(D).

(C) Any CBBC which has not automatically terminated on a Mandatory Call Date will automatically be exercised if, on the Expiry Date, the value of the Cash Settlement Amount is greater than zero (without prior notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) in accordance with Condition 4(D).

(D) For the avoidance of doubt, where the CBBCs have been exercised on the Expiry Date or have automatically terminated on a Mandatory Call Date (as the case may be), payment of the Cash Settlement Amount (if any) shall constitute full and final settlement of the obligations of the Issuer with respect to the CBBCs. Subject to such payment having been made, the Issuer shall have no obligation towards the relevant Holder under the CBBCs subsequent to such Expiry Date or Mandatory Call Date (as the case may be).

(E) Any CBBC which has not been automatically terminated or which has not been automatically exercised in accordance with Condition 3(B) or Condition 3(C) (as the case may be) shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such CBBC shall cease.

4. Exercise of CBBCs, Cancellation and Payment

(A) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(B) The Holders will not be required to deliver an exercise notice for any purpose in relation to the CBBCs.

(C) The Issuer will, with effect from the first Business Day following the Mandatory Call Date or the Expiry Date (as the case may be), remove from its register the name of the person in respect of the CBBCs which (i) are the subject of an occurrence of a Mandatory Call Event; (ii) are the subject of an exercise whether pursuant to automatic exercise in accordance with these Conditions; or (iii) have expired worthless, and thereby cancel the relevant CBBCs.

(D) Subject to automatic exercise of CBBCs or the occurrence of a Mandatory Call Event in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount minus any determined Exercise Expenses. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The Cash Settlement Amount minus any determined Exercise Expenses shall be dispatched not later than the third CCASS Settlement Day following the end of the MCE Valuation Period or the Valuation Date, as the case may be ("**Settlement Date**") by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

5. Agent

(A) The Agent will be acting as agent of the Issuer in respect of any CBBC and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with Condition 11.

6. Adjustments to the Index

(A) If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(B) If: (i) on or prior to a Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or (ii) on a Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure and may make such other adjustments as it deems appropriate including, but not limited to, adjusting the Strike Level and the Call Level.

(C) *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(D) All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 11.

7. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

8. Purchases by the Issuer

The Issuer and/or any of its subsidiaries may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of the Nominee. The Global Certificate will not be exchangeable for definitive certificates.

10. Meetings of Holders and Modification

(A) *Meetings of Holders*. Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 11.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 percent of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 percent of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(B) *Modifications*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is: (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Agent before the effective date or as soon as practicable thereafter in accordance with Condition 11.

11. Notices

All notices in English and Chinese to the Holder will be validly given if published on the website of Hong Kong Exchanges and Clearing Limited, www.hkex.com.hk.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

13. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

14. Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent

BOCI Securities Limited
20/F, Bank of China Tower
1 Garden Road
Hong Kong

TERMS AND CONDITIONS OF CASH-SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUSTS

These Conditions will, together with the supplemental provision contained in the relevant supplemental listing document, subject to completion and amendment, be endorsed on the back of global certificate. The relevant supplemental listing document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs. Capitalised terms used in these Conditions and not otherwise defined therein shall have the meaning given to them in the relevant supplemental listing document.

1. Form, Status, Transfer and Title

(A) The callable bull/bear contracts or CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 13) relating to the Units of the Trust are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the supplemental listing document) executed by BOCI Asia Limited (the "**Issuer**"). The Holder (as defined below) is entitled to the benefit of, is bound by and is deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of the Agent as specified below.

The CBBCs are represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) ("**Nominee**"). No definitive certificate will be issued. The CBBCs can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the CBBCs represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligation accorded preference by mandatory provisions of applicable law.

The CBBCs represent general contractual obligation of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfer of CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by or on behalf of the Issuer outside of Hong Kong as the holder shall be treated by the Issuer and the Agent as the absolute owner and holder of the CBBCs. The expression "**Holder**" shall be construed accordingly.

(E) Trading in CBBCs on the Stock Exchange shall be suspended immediately upon the occurrence of a Mandatory Call Event (in which case all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange) or at the close of trading for the Trading Day immediately preceding the Expiry Date (whichever is earlier) in accordance with the requirements of the Stock Exchange.

2. CBBC Rights and Exercise Expenses

(A) Every Board Lot entitles the Holder, upon compliance with these Conditions, in particular Condition 4, to payment of the Cash Settlement Amount.

(B) The Holders will be required to pay the Exercise Expenses resulting from the early termination of the CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs at expiry. To effect such payment an amount equivalent to the Exercise Expenses shall be deducted from the Cash Settlement Amount in accordance with Condition 4.

(C) For the purposes of these Conditions:

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means, for every Board Lot:

(a) following a Mandatory Call Event:

(i) in the case of a series of Category R CBBCs, the Residual Value; or

(ii) in the case of a series of Category N CBBCs, zero; and

(b) at expiry:

(i) in respect of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the respect of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price – Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing price as may be necessary to reflect any capitalization, rights issue, distribution or the like) on the Valuation Date;

"**Entitlement**" has the meaning given to it in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the early termination of CBBCs upon the occurrence of a Mandatory Call Event or the exercise of the CBBCs upon expiry;

"**Mandatory Call Date**" means the Trading Day during the Observation Period on which a Mandatory Call Event occurs;

"**Mandatory Call Event**" occurs when the Spot Price of the Units on any Trading Day during the Observation Period is:

(a) in respect of a series of bull CBBCs, at or below the Call Price; or

(b) in respect of a series of bear CBBCs, at or above the Call Price;

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of, or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case where the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), provided that there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Units during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed.

In that case (1) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period, and (2) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purpose of this definition:

(1) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if applicable) of the same day; and

(2) the afternoon session and the closing auction session (if applicable) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Units during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period from (and including) the Observation Commencement Date to (and including) the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Residual Value**" means, for every Board Lot:

(i) in respect of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price – Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in respect of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price – Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Disruption Event**" means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment of the Cash Settlement Amount electronically through CCASS to the relevant bank account designated by the relevant Holder ("**Designated Bank Account**");

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price ("**IEP**") (as defined in the Trading Rules) of the Units (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time.

"**Trust**" means the trust specified as such in the relevant supplemental listing document;

"**Unit**" means the unit specified as such in the relevant supplemental listing document; and

"**Valuation Date**" means, subject as provided below in relation to a Market Disruption Event, the Trading Day immediately preceding the Expiry Date.

3. Exercise of CBBCs, Mandatory Call Event, Automatic Exercise and Expiry

(A) The CBBCs are exercisable on the Expiry Date, provided that a Mandatory Call Event has not occurred.

(B) Upon the occurrence of a Mandatory Call Event, the CBBCs will terminate automatically on the Mandatory Call Date. Any CBBC in respect of which a Mandatory Call Event has occurred will entitle the Holder to receive the Cash Settlement Amount (if any) in accordance with Condition 4(D).

(C) Any CBBC which has not automatically terminated on a Mandatory Call Date will automatically be exercised if, on the Expiry Date, the value of the Cash Settlement Amount is greater than zero (without prior notice being given to the Holders). The Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Holders the Cash Settlement Amount (if any) in accordance with Condition 4(D).

(D) For the avoidance of doubt, where the CBBCs have been exercised on the Expiry Date or have automatically terminated on a Mandatory Call Date (as the case may be), payment of the Cash Settlement Amount (if any) shall constitute full and final settlement of the obligations of the Issuer with respect to the CBBCs. Subject to such payment having been made, the Issuer shall have no obligation towards the relevant Holder under the CBBCs subsequent to such Expiry Date or Mandatory Call Date (as the case may be).

(E) Any CBBC which has not been automatically terminated or which has not been automatically exercised in accordance with Condition 3(B) or Condition 3(C) (as the case may be) shall expire immediately without value thereafter and all rights of the Holder and obligations of the Issuer with respect to such CBBC shall cease.

4. Exercise of CBBCs, Cancellation and Payment

(A) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(B) The Holders will not be required to deliver an exercise notice for any purpose in relation to the CBBCs.

(C) The Issuer will with effect from the first Business Day following the Mandatory Call Date or the Expiry Date (as the case may be), remove from its register the name of the person in respect of the CBBCs which (i) are the subject of an occurrence of a Mandatory Call Event; (ii) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions; or (iii) have expired worthless, and thereby cancel the relevant CBBCs.

(D) Subject to automatic exercise of CBBCs or the occurrence of a Mandatory Call Event in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Holder equal to the Cash Settlement Amount minus any determined Exercise Expenses. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The Cash Settlement Amount minus any determined Exercise Expenses shall be dispatched not later than the third CCASS Settlement Day following the end of the MCE Valuation Period or the Valuation Date, as the case may be ("**Settlement Date**") by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of the Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then that Valuation Date shall be postponed to the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date that, but for the Market Disruption Event, would have been the Valuation Date. In that case (i) that fourth Trading Day immediately following such original date shall be deemed to be the Valuation Date, notwithstanding the Market Disruption Event, and (ii) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Units on the Stock Exchange and such other factors as the Issuer determines to be relevant.

5. Agent

(A) The Agent will be acting as agent of the Issuer in respect of any CBBCs and will not assume any obligation or duty to or any relationship of agency or trust for the Holders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Agent and to appoint another agent provided that it will at all times maintain an agent in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with Condition 11.

6. Adjustments

Adjustments may be made by the Issuer on the basis of the following provisions:

(A) *Rights Issues*. If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Units of the Trust becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Trading Day on which the Units are traded on a cum-Rights basis

R: Subscription price per new Unit as specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. Such adjustments shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally by way of capitalization of profits or reserves (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement will be adjusted on the Business Day on which trading in the Units of the Trust becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

Adjustment Factor = 1 + N

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made to the Entitlement. In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. Such adjustments shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation, in each case on the day on which the relevant Subdivision or Consolidation (as the case may be) takes effect.

(D) *Restructuring Events*. If it is announced that the Trust is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Trust is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (D) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) *Cash Distribution*. Generally, no adjustment will be made for an ordinary cash distribution (whether or not it is offered with a script alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution (each a "**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units of the Trust becomes ex-entitlement in respect of the relevant Cash Distribution ("**Cash Distribution Adjustment Date**") in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the OD shall be zero if the date on which the Units are traded on an ex-Ordinary Distribution basis is not the Cash Distribution Adjustment Date

S: The closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the Trading Day immediately preceding the Cash Distribution Adjustment Date

In addition, the Issuer shall adjust the Strike Price and the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by multiplying each of them by the reciprocal of the Adjustment Factor, where the reciprocal of the Adjustment Factor means one divided by the relevant Adjustment Factor. These adjustment shall take effect on the Cash Distribution Adjustment Date.

(F) *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(a) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(b) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

7. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(a) for it to perform its obligations under the CBBCs in whole or in part as a result of:

(i) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(ii) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (i) and (ii), a "**Change in Law Event**"); or

(b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 11.

8. Purchases by the Issuer

The Issuer and/or any of its subsidiaries may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

A global certificate (the "**Global Certificate**") representing the CBBCs will be deposited within CCASS and registered in the name of the Nominee. The Global Certificate will not be exchangeable for definitive certificates.

10. Meetings of Holders and Modification

(A) *Meetings of Holders*. Notices for convening meetings to consider any matter affecting the Holder's interests will be given to the Holder in accordance with the provisions of Condition 11.

Every question submitted to a meeting of the Holder shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 percent of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons (including any nominee appointed by the Holder) holding or representing not less than 25 percent of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders as, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is: (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Agent before the effective date or as soon as practicable thereafter in accordance with Condition 11.

11. Notices

All notices in English and Chinese to the Holder will be validly given if published on the website of Hong Kong Exchanges and Clearing Limited, www.hkex.com.hk.

12. Liquidation

In the event of a liquidation or dissolution of the Trust or the appointment of a liquidator, receiver or administrator or analogous person under Hong Kong law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

13. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

14. Delisting

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 14(A), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of Holders on automatic expiry or exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 11 as soon as practicable after they are determined.

15. Taxation

The Issuer is not liable for or otherwise obliged to pay any tax, duty, withholding or other payment which may arise as a result of the ownership, transfer or exercise of any CBBCs.

16. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

17. Governing Law

The CBBCs and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

18. Language

A Chinese translation of these Conditions is available upon request during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of the Agent. In the event of any inconsistency between the English version and the Chinese translation of these Conditions, the English version shall prevail and be governing.

Agent

BOCI Securities Limited
20/F, Bank of China Tower
1 Garden Road
Hong Kong

APPENDIX 2
AUDITOR'S REPORT AND OUR CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

This information in this Appendix 2 has been extracted from our consolidated financial statements for the year ended 31 December 2011. The page numbers above the page numbers of this document refer to the pages of our financial statements.

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

We have audited the consolidated financial statements of BOCI Asia Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 4 to 73, which comprise the consolidated and Company statement of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the directors also have a responsibility to ensure that the financial statements of the Company are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing and with reference to Practice Note 820 "The Audit of Licensed Corporations and Associated Entities of Intermediaries" issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement, and whether the financial statements of the Company are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF BOCI ASIA LIMITED (CONTINUED)
中銀國際亞洲有限公司

(incorporated in Hong Kong with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 December 2011, and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 April 2012

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 HK$	2010 HK$
Revenue	5	2,287,806,809	2,833,466,852
Trading gain/(loss), net	5	(372,901,273)	204,775,551
Other income	6	210,724,293	248,798,309
Total income		2,125,629,829	3,287,040,712
Commission and clearing expenses		(582,629,443)	(709,974,418)
Staff costs	7	(484,124,821)	(792,547,364)
Operating lease rental in respect of leased premises		(50,427,822)	(44,304,952)
Depreciation	14	(19,176,583)	(47,418,177)
Information technology and communications expenses		(113,779,046)	(115,314,895)
Management fee to related companies		(346,853,315)	(366,575,232)
Other operating expenses	9	(108,204,153)	(116,388,806)
		(1,705,195,183)	(2,192,523,844)
Finance costs	10	(114,026,584)	(68,646,820)
Profit before taxation		306,408,062	1,025,870,048
Income tax expense	11	(35,315,590)	(155,222,583)
Profit after taxation for the year		271,092,472	870,647,465
Attributable to: Equity holders of the Company		271,092,472	870,647,465
Dividends	13	-	1,020,000,000

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

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

		2011 HK$	2010 HK$
Profit after taxation for the year		271,092,472	870,647,465
Other comprehensive income:			
Fair value gains of available-for-sale financial assets, net of tax	19	171,210	228,790
Total comprehensive income for the year		271,263,682	870,876,255
Attributable to:			
Equity holders of the Company		271,263,682	870,876,255

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

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	2011 HK$	2010 HK$
ASSETS			
Non-current assets			
Plant and equipment	14	15,033,800	32,541,423
Intangible assets	15	50,006,537	49,715,218
Deferred income tax assets	18	55,552,303	-
Available-for-sale financial assets	19	1,255,000	1,075,000
Statutory deposits and other assets		9,858,444	18,132,998
		131,706,084	101,464,639
Current assets			
Available-for-sale financial assets	19	-	60,327,452
Financial assets at fair value through profit or loss	20	475,874,742	2,700,322,610
Derivative financial instruments	21	123,545,061	65,193,251
Loans and receivables	22	11,187,203,309	12,508,540,759
Cash and balances with banks	23	13,515,017,098	6,806,464,837
Taxation recoverable		11,665,176	-
		25,313,305,386	22,140,848,909
Total assets		25,445,011,470	22,242,313,548
LIABILITIES			
Current liabilities			
Bank loans and other borrowings – unsecured		465,905,219	150,000,123
Subordinated loans from immediate holding company	25	2,285,000,000	2,285,000,000
Amounts due to immediate holding company	25	2,569,339,051	4,196,597,580
Amounts due to fellow subsidiaries	24	199,999,952	333,970,209
Accounts and other payables	26	4,603,121,700	5,414,942,220
Deposits from customers	27	11,313,719,258	6,158,651,082
Derivative financial instruments	21	150,439,868	186,603,786
Financial liabilities at fair value through profit or loss	28	237,605,400	105,882,528
Taxation payable		19,800,968	79,569,888
		21,844,931,416	18,911,217,416
Non-current liabilities			
Deferred income tax liabilities	18	304,033	2,583,793
Total liabilities		21,845,235,449	18,913,801,209

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

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 31 DECEMBER 2011

	Note	2011 HK$	2010 HK$
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	2,000,000,000	2,000,000,000
Reserve for fair value changes of available-for-sale financial assets		495,000	323,790
Retained earnings		1,599,281,021	1,328,188,549
		3,599,776,021	3,328,512,339
Total liabilities and equity		25,445,011,470	22,242,313,548

Chan Wing Chi

Director Director

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

BOCI ASIA LIMITED
中銀國際亞洲有限公司

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

	Note	2011 HK$	2010 HK$
ASSETS			
Non-current assets			
Investment in subsidiaries	16	1,722,792,046	1,137,792,046
Plant and equipment	14	833,677	1,400,631
Statutory deposits and other assets		-	55,000
Deferred income tax assets	18	55,552,303	-
		1,779,178,026	1,139,247,677
Current assets			
Financial assets at fair value through profit or loss	20	475,213,179	2,699,435,201
Derivative financial instruments	21	16,941,809	18,799,159
Loans and receivables	22	205,580,196	661,930,061
Amounts due from immediate holding company	25	565,626,430	-
Amounts due from fellow subsidiaries	24	3,862,963	6,590,813
Cash and balances with banks	23	591,888,073	35,939,382
Taxation recoverable		11,665,176	-
		1,870,777,826	3,422,694,616
Total assets		3,649,955,852	4,561,942,293
LIABILITIES			
Current liabilities			
Subordinated loans from immediate holding company	25	385,000,000	385,000,000
Amounts due to immediate holding company	25	-	811,895,715
Amounts due to fellow subsidiaries	24	198,996,531	311,566,421
Accounts and other payables	26	163,936,635	429,974,163
Derivative financial instruments	21	45,582,633	140,886,260
Financial liabilities at fair value through profit or loss	28	237,605,400	105,839,453
Taxation payable		-	36,374,554
Total liabilities		1,031,121,199	2,221,536,566
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	2,000,000,000	2,000,000,000
Retained earnings	30	618,834,653	340,405,727
		2,618,834,653	2,340,405,727
Total liabilities and equity		3,649,955,852	4,561,942,293

Director   Director

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

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

		Attributable to equity holders of the Company			
	Note	Share capital HK$	Reserve for fair value changes of available-for-sale financial assets HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2010		2,000,000,000	95,000	1,477,541,084	3,477,636,084
Comprehensive income					
Profit after taxation for the year		-	-	870,647,465	870,647,465
Other comprehensive income					
Fair value gains of available-for- sale financial assets, net of tax	19	-	228,790	-	228,790
Total comprehensive income		-	228,790	870,647,465	870,876,255
2011 interim dividends	13	-	-	(1,020,000,000)	(1,020,000,000)
Balance at 31 December 2010		2,000,000,000	323,790	1,328,188,549	3,328,512,339
Balance at 1 January 2011		2,000,000,000	323,790	1,328,188,549	3,328,512,339
Comprehensive income					
Profit after taxation for the year		-	-	271,092,472	271,092,472
Other comprehensive income					
Fair value gains of available-for- sale financial assets, net of tax	19	-	171,210	-	171,210
Total comprehensive income		-	171,210	271,092,472	271,263,682
Balance at 31 December 2011		2,000,000,000	495,000	1,599,281,021	3,599,776,021

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

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 HK$	2010 HK$
Cash flow from operating activities			
Net cash inflow from operating activities	31	7,805,281,232	4,077,624,521
Investing activities			
Purchase of plant and equipment	14	(1,847,203)	(9,641,275)
Purchase of intangible assets	15	(291,319)	-
Purchase of available-for-sale financial assets		-	(60,510,673)
Proceeds from redemption of available-for-sale financial assets	19	60,363,945	520,090
Decrease/(increase) in statutory deposits and other assets		8,272,554	(6,551,829)
Proceeds from disposal of plant and equipment		1,166,684	-
Net proceeds from disposal of a subsidiary	17	25,611,569	-
Net cash inflow/(outflow) from investing activities		93,276,230	(76,183,687)
Net cash inflow before financing activities		7,898,557,462	4,001,440,834
Financing activities			
Repayment of subordinated loans		-	(360,000,000)
Dividends paid to equity holders		-	(1,020,000,000)
Net cash outflow from financing activities		-	(1,380,000,000)
Increase in cash and cash equivalents		7,898,557,462	2,621,440,834
Cash and cash equivalents at 1 January		5,309,014,324	2,687,573,490
Cash and cash equivalents at 31 December		13,207,571,786	5,309,014,324
Analysis of balance of cash and cash equivalents			
Cash at banks and in hand with original maturity within three months	23	6,716,706,504	288,701,936
Short-term bank deposits with original maturity within three months	23	5,634,371,109	5,020,312,388
Placements with banks with original maturity within three months	23	856,494,173	-
		13,207,571,786	5,309,014,324

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

BOCI Asia Limited ("the Company") is a limited liability company incorporated in Hong Kong. The address of its registered office is 26/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

The consolidated financial statements of the Group for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as "the Group").

The Group provides a broad range of investment banking services for a diverse group of domestic and international companies, financial institutions, government agencies and individuals through its subsidiaries and affiliates in Hong Kong. The Group engages in the provision of banking services, underwriting and financial advisory, sales and trading of securities and other financial instruments.

These consolidated financial statements are presented in nearest Hong Kong dollars (HK$), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 30 April 2012.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of BOCI Asia Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 34.

During the year, the Group changed the presentation of trading gain and loss in the consolidated income statement. Previously, trading gain and loss is included as part of the revenue and it was reclassified separately in the consolidated income statement for the year ended 31 December 2011. Management believes that the new presentation results in more relevant information. Comparative figures in the consolidated income statement and in relevant notes have been restated accordingly. The reclassification did not have any impact on the consolidated statement of financial position.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) Standards, amendment and interpretations effective in 2011 and relevant to the Group's operations

- HKFRS 7 – Financial Instruments: Disclosures has been amended with effective from 1 January 2011 as part of the Improvements to HKFRSs issued in May 2010. It clarifies the disclosure requirements for financial instruments, with a particular focus on the qualitative disclosures and credit risk disclosures. The Group adopted this amendment to HKFRS 7 in relation to credit risk exposures of the Group.

(b) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published but are not effective for the financial year beginning 1 January 2011, and the Group has not early adopted them:

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities.

  HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

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

- HKAS 32 (Amendment), 'Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities'. The amendment addresses inconsistencies in current practice when applying the offsetting criteria and clarifies the meaning of 'currently has a legally enforceable right of set-off'; and the application of offsetting criteria to some gross settlement systems (such as central clearing house systems) that may be considered equivalent to net settlement. The Group is considering the financial impact of the amendment.

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(b) Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group (Continued)

- HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities'. The amendment introduces disclosures that are intended to facilitate comparison between those entities that prepare HKFRS financial statements to those that prepare financial statements in accordance with generally accepted accounting principles in the US. The new disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The amendment will require more extensive disclosures than are currently required, and as such will affect the disclosures of the Group's financial statements.

- HKFRS 7 (Amendment), 'Financial Instruments: Disclosures – Transfer of Financial Assets'. The amendment introduces new quantitative disclosure requirements for transfers of financial assets that are either fully derecognised or derecognised not in their entirety. The adoption of this amendment will affect the disclosures of the Group's financial statements when the Group undertakes transfers of financial assets that fall within its scope.

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HKFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

2 Summary of significant accounting policies (Continued)

2.2 Basis of consolidation

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

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position the investment in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

2 Summary of significant accounting policies (Continued)

2.2 Basis of consolidation (Continuted)

Disposal of a subsidiary

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and the Company's and Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2 Summary of significant accounting policies (Continued)

2.4 Plant and equipment

Plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Costs include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the 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 or revalued amounts to their residual values over their estimated useful lives, as follows:

- Leasehold improvements — 5 years
- Furniture, fixtures and equipment — 3 – 10 years
- Electronic equipment — 3 – 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

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

2.5 Intangible assets - goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is carried at cost less accumulated impairment loss and is tested annually for impairment. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

2 Summary of significant accounting policies (Continued)

2.6 Impairment of investment in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, but are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets others than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investment in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the investee concerned in the period the dividend is declared, or if the carrying amount of the relevant investment in the Company's statement of financial position exceeds the carrying amount in the consolidated statement of financial position of the investee's net assets including goodwill.

2.7 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making.

A financial asset is typically 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; or

2 Summary of significant accounting policies (Continued)

2.7 Financial assets (Continued)

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the end of reporting period. These are classified as non-current assets. Loans and receivables are included in accounts and other receivables in the consolidated statement of financial position.

(c) Held-to-maturity investments

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

(d) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of financial position. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

2 Summary of significant accounting policies (Continued)

2.7 Financial assets (Continued)

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement when the Group's right to receive payments is established.

Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recognised in other comprehensive income and accumulated in equity, until the financial asset is disposed of or impaired at which time the gain or loss accumulated in equity is reclassified to the consolidated income statement. However, interest calculated using the effective interest method is recognised in the consolidated income statement.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences resulting from change in the amortized cost are recognised in income statement, and other change in carrying amount are recognised in other comprehensive income. Translation differences on non-monetary financial assets such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in other comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active or the securities are unlisted, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2.8 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 income statement within other operating expenses. When a loan or receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the consolidated income statement.

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 each end of reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement – is removed from and recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated income statement, the impairment loss is reversed through the consolidated income statement.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.10 Financial liabilities

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value. Fair value represents quoted prices if active market exists. When no active market exists, fair value is estimated by valuation techniques that are commonly used by market participants or dealer quotes.

2 Summary of significant accounting policies (Continued)

2.10 Financial liabilities (Continued)

(a) Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the consolidated income statement.

A financial liability is typically 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 "an accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;

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

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

Financial liabilities at fair value through profit or loss, including structured notes issued embedded with certain derivatives, are designated as such at inception. Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the consolidated income statement.

(b) Other financial liabilities

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

2 Summary of significant accounting policies (Continued)

2.11 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised immediately in the consolidated income statement.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.13 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

2 Summary of significant accounting policies (Continued)

2.14 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period. Employee entitlements to sick leave and maternity leave or paternity leave are not recognised until the time of leave.

(b) Bonus plans

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

The Group recognises a liability and an expense for bonuses, with reference to the performance of the Group. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. Liabilities for bonus plans that are expected to be settled within twelve months are measured at the amounts expected to be paid when they are settled.

Bonus payments that are not due wholly within twelve months after the end of the year in which the employees render the related services are included as other long-term employee benefits. The long-term employee benefits are measured at the present value of the expected payments which also reflects the possibility that some employees may leave without receiving the bonus.

(c) Pension obligations

The Group offers a mandatory provident fund scheme and a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Group.

The Group's contributions to the mandatory provident fund scheme and the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

2 Summary of significant accounting policies (Continued)

2.15 Income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the consolidated income statement together with the deferred gain or loss.

2.16 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

2.17 Dividend distribution

Dividend distribution to the Company's equity holders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Board of Directors.

2 Summary of significant accounting policies (Continued)

2.18 Revenue

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

Brokerage commission is recognised on a trade-date basis.

Underwriting and placement commission is recognised in accordance with the terms of the underlying agreements and mandates.

Corporate finance and other fees are recognised when services are rendered.

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

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

2.19 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

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

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

2 Summary of significant accounting policies (Continued)

2.20 Fiduciary activities

Trust accounts maintained by the Group to hold clients' monies are treated as the off-balance sheet items and disclosed in notes to the consolidated financial statements.

2.21 Stock borrowing and lending

Securities may be lent or sold subject to a commitment to repurchase them (a repo). 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 consideration is received.

Similarly, where the Group borrows or purchases securities subject to a commitment to resell them (a reverse repo) but does not acquire the risks and rewards of ownership, the transactions are treated as collateralised loans when cash consideration is paid, and the securities are not included in the consolidated statement of financial position.

The difference between sale and repurchase price is accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in trading gain/(loss), net.

2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee ("EC") of the Group that makes key and strategic decision.

3 Financial risk management

The activities of the Group exposed it to a variety of financial risks: market risk (e.g. foreign exchange risk, interest rate risk and equity risk), credit risk and liquidity risk.

The Company is a wholly owned subsidiary of BOC International Holdings Limited (collectively refer to "BOCI Group" in this section). BOCI Group's risk management organization and policies extend to cover also the Group as there is no separate risk management organization and policies for the Group. The risk management policy in BOCI Group applies to the Group as well.

The Group overall risk management programme focuses on the unpredictability of financial markets and seeks to recognise potential adverse effects on the financial performance of BOCI Group and the Group.

Risk management organisation

The Group's risk management organisation seeks to maximize returns while maintaining a strong and prudent risk management by promoting transparency and accuracy in its risk assessment and management processes. The Group, leverages on the risk management organisation of its immediate holding company, consists of the following main components:

Board level

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

RMC is responsible for assisting the Board of Directors in fulfilling their oversight responsibilities by providing guidance regarding the risk governance and the development of acceptable risk profile. RMC approves new business proposal and conducts regular review of major risk exposures and the approval of risk limits to ensure that the Group's risk-taking activities are consistent with its business strategy, capital structure, and risk tolerance.

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

3 Financial risk management (Continued)

Management level

The Executive Committee ("EC") is composed of the Chief Executive Officer, Deputy Chief Executive Officer, Chief Operating Officer, Chief Risk Officer and heads of major divisions. It operates on a partnership model to provide integrated executive leadership. Moreover, it is responsible for the appointment and operation of the Risk Control Committee ("RCC") and the Commitment Committee ("CC").

RCC and CC derive their decision-making authority from RMC and the Executive Committee. They meet regularly and consist of the Group's senior management, business heads and heads of the control and support units.

The RCC is responsible for overseeing the risk management process of the Group and is responsible for:

- Managing exposures to market risk, credit risk, operational risk, financial and liquidity risk, legal risk, reputation and compliance risks;
- Evaluating and approving all risk management policies, and monitoring their implementation in accordance to the principles and policies established by the Board and the RMC, and under the guidance of the EC;
- Evaluating and approving internal risk limits and delegations;
- Supervising and coordinating risk management activities, reviewing the completeness and effectiveness of risk management infrastructures, and facilitating the building of risk culture;
- Monitoring overall risk exposure and organising investigations to any risk event that considers material;
- Evaluating and approving new product and new business proposals in accordance to the policies and authorities delegated by the Board;
- Evaluating and approving significant transactions; and
- Undertaking any other duties assigned by the RMC of the Board or the EC.

The RCC is chaired by the Chief Risk Officer and is comprised of senior management of the major functional areas.

The CC is composed of senior management representing the business, compliance and support units. It is responsible for overseeing the Group's underwriting, distribution and financial advisory business activities.

Risk control functions

The segregation of duties and the integrity of operating systems within the Group are two basic features of the Group's practice. Control and support units such as risk management, finance and treasury, legal and compliance, human resources, operations and information technology are independent of the business reporting lines. These units contribute to the Group's risk management system through their complementary reporting and control functions. The Risk Management Division ("RMD") evaluates and monitors the market and credit risk exposure on regular basis. The RMD reports any risk issues and risk analysis on business proposals to RCC, RMC and the Board. The Finance & Treasury Division ("FTD") evaluates and monitors the liquidity, interest rate and foreign exchange risk of non-trading book.

3 Financial risk management (Continued)

3.1 Market risk

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

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

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

3.1.1 Value at risk and stress test

BOCI Group adopts the Value at Risk ("VaR") approach to derive quantitative measures for trading book market risks under normal market conditions. The Board sets VaR limits on both equity derivatives and fixed income units that may be undertaken. BOCI Group monitors VaR separately for equity derivatives unit and fixed income unit and each on a group basis, therefore no separate VaR is prepared. BOCI Group's exposure to non-trading book is not considered to be significant and no VAR is prepared. Further, the VaR is prepared in BOCI Group as a whole and no separate VaR is prepared for the financial position in the Group.

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

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

Stress testing is used as a supplement to BOCI Group's VaR analysis. The Board sets stress limits on both equity derivatives and fixed income desks that may be undertaken. Potential future stress loss is assessed using a number of hypothetical extreme market scenarios include the stress scenarios of different risk parameters such as equity level, volatilities, interest rate and credit spread. Stress scenarios are regularly reviewed to reflect a more updated and relevant market conditions and company business operations.

3 Financial risk management (Continued)

3.1.2 Equity risk

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

The table below shows the equity risk in the Group's equity positions for hypothetical changes in underlying prices and volatilities. No correlation is taken into consideration in presenting the below analysis.

31 December 2011

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

31 December 2010

HK$'000	Change in volatility		
Change in equity price	**10%**	**0%**	**-10%**
10%	206,769	207,658	208,547
-10%	(237,799)	(236,910)	(236,021)

The Group does not have non-trading book exposure to equity price risk as at 31 December 2011 and 31 December 2010.

3 Financial risk management (Continued)

3.1.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in interest rates. The Group takes on exposure on both fair value and cash flow interest rate risks.

Interest rate risk from trading book is monitored by RMD by using VaR tools on daily basis. For non-trading book interest rate risk, the Board sets limits on the level of mismatch of interest rate repricing, duration gap and stress test that may be undertaken, which is monitored on a regular basis by FTD.

The following table shows the expected repricing dates (or maturity dates whichever are earlier) for assets and liabilities at the end of reporting period.

At 31 December 2011	Less than 1 month HK$'000	Between 1-3 months HK$'000	Between 3-12 months HK$'000	Non-interest bearing HK$'000	Total HK$'000
Statutory deposits and other assets	-	-	-	9,858	9,858
Available-for-sale financial assets	-	-	-	1,255	1,255
Financial assets at fair value through profit or loss	-	-	-	475,875	475,875
Derivative financial instruments	-	-	-	123,545	123,545
Accounts and other receivables	-	-	-	4,002,407	4,002,407
Loans to customers	6,939,754	178,480	66,562	-	7,184,796
Cash and cash equivalents	10,312,667	1,041,151	122,789	2,038,410	13,515,017
Others	-	-	-	132,258	132,258
Total assets	17,252,421	1,219,631	189,351	6,783,608	25,445,011
Bank loans and other borrowings – unsecured	465,905	-	-	-	465,905
Subordinated loans form immediate holding company	1,785,000	-	500,000	-	2,285,000
Amounts due to immediate holding company	1,636,227	234,255	-	698,857	2,569,339
Amounts due to fellow subsidiaries	-	-	-	200,000	200,000
Accounts and other payables	-	-	-	4,603,122	4,603,122
Deposits from customers	10,349,231	925,424	39,064	-	11,313,719
Derivative financial instruments				150,440	150,440
Financial liabilities at fair value through profit or loss	-	-	-	237,605	237,605
Others	-	-	-	20,105	20,105
Total liabilities	14,236,363	1,159,679	539,064	5,910,129	21,845,235
Total interest repricing gap	3,016,058	59,952	(349,713)		

3 Financial risk management (Continued)

3.1.3 Interest rate risk (Continued)

At 31 December 2010	Less than 1 month HK$'000	Between 1-3 months HK$'000	Between 3-12 months HK$'000	Between 1 – 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Statutory deposits and other assets	-	-	-	-	18,133	18,133
Available-for-sale financial assets	-	50,337	9,990	-	1,075	61,402
Financial assets at fair value through profit or loss	-	-	-	-	2,700,323	2,700,323
Derivative financial instruments	-	-	-	-	65,193	65,193
Accounts and other receivables	-	-	-	-	5,501,091	5,501,091
Loans to customers	6,805,443	98,271	47,151	56,585	-	7,007,450
Cash and cash equivalents	5,289,318	840,276	500,397	-	176,474	6,806,465
Others	-	-	-	-	82,257	82,257
Total assets	12,094,761	988,884	557,538	56,585	8,544,546	22,242,314
Bank loans and other borrowings - unsecured	150,000	-	-	-	-	150,000
Subordinated loans form immediate holding company	2,285,000	-	-	-	-	2,285,000
Amounts due to immediate holding company	4,030,000	-	300,000	-	(133,402)	4,196,598
Amounts due to fellow subsidiaries	-	-	-	-	333,970	333,970
Accounts and other payables	-	-	-	-	5,414,942	5,414,942
Deposits from customers	5,347,931	558,726	251,994	-	-	6,158,651
Derivative financial instruments	-	-	-	-	186,604	186,604
Financial liabilities at fair value through profit or loss	-	-	-	-	105,883	105,883
Others	-	-	-	-	82,153	82,153
Total liabilities	11,812,931	558,726	551,994	-	5,990,150	18,913,801
Total interest repricing gap	281,830	430,158	5,544	56,585		

As at 31 December 2011, if general market interest rates had been 100 basis point higher or lower with other variables held constant, profit before taxation for the year would have been approximately HK$28 million (2010: HK$7 million) higher/lower, mainly as a result of higher/lower net interest income earned on floating rate bank balances, loans to customers, subordinated loan from immediate holding company, and deposits from customers.

3 Financial risk management (Continued)

3.1.4 Foreign exchange risk

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

The foreign exchange risk of trading book is managed in the Group either by using foreign exchange spots or other derivative transactions. It is controlled under the risk management framework, including VaR and stress limits.

For non-trading book, the Board set limits on individual and aggregate open positions of various currencies. Stress loss limits of non-trading book are also set. The foreign exchange risk of non-trading book is monitored by FTD on daily basis. As at 31 December 2011, the Group did not have significant open foreign currency positions, except for USD. The USD net long open position amounted to approximately HK$79 million (2010: net long position of HK$46 million).

USD denominated assets mainly consists of short-term deposits, loans and receivables, while USD denominated liabilities include accounts and other payables, deposits from customers and amounts due to fellow subsidiaries.

As HKD is pegged to USD, the Group does not expose to significant foreign exchange risk.

3.2 Credit risk

Credit risk represents the loss that the Group would suffer if a client or counterparty fails to meet its contractual obligations. Credit exposures arise principally in loans and receivables, debt securities and derivative financial instruments. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The credit risk management and control are centralised in RMD.

3.2.1 Loans and receivables

The Group assesses credit risk of loans to corporate and individual clients and to financial institutions by performing credit assessment.

The credit risk management system of the Group comprises of pre-trade and post-trade credit control functions.

Regarding the pre-trade credit control functions, the Group has policies and procedures in place to ensure that credits are granted to clients with appropriate creditworthiness. the Group has its own in-house assessment methodologies for evaluating the creditworthiness of its counterparties. The Group credit approval process involves a detailed assessment of the counterparty's creditworthiness and also the risks related to the specific type of credit facility applied for.

Credit limits are set up to cap the maximum credit exposures that the Group intends to assume over specified periods. The Group's credit policy and procedure also sets out the procedures for the approval of exceptional cases when the Group may assume exposures beyond the set limits.

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

3.2.1 Loans and receivables (Continued)

Exposure to credit risk is managed in part by obtaining collateral from the counterparties. The Group has maintained relationships with various financial institutions and other counterparties, and has credit limits in place for these counterparties.

Post-trade credit control encompasses exposure and collateral monitoring and reporting. Collaterals covering the credit risk exposure in case of default are subject to mark-to-market and monitoring on a daily basis (refer to 3.2.4 for details).

In particular, credit risk from customer securities dealing receivables under securities brokerage business is normally controlled through delivery-against-payment settlement and custody arrangement.

3.2.2 Debt securities and derivatives

Credit risk is inherent in debt securities and derivatives.

The Group assesses credit risk of derivative counterparties using external credit ratings and internal credit assessment. The Group controls the credit exposures by imposing potential market exposure limits. At any one time, the amount subject to credit risk includes (i) the current fair value of instruments that are favourable to the Group (i.e., assets where their fair values are positive) and (ii) the potential exposures of each counterparty from market movements. The credit risk exposure is monitored on a daily basis and collateral is obtained to mitigate the credit risk depending on credit assessment of the counterparty.

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

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

3.2.3 Netting arrangement

To reduce its credit exposure, the Group seeks to enter into close-out netting agreements with counterparties that permit it to offset receivables and payables with such counterparties. Netting is mainly achieved by utilising the International Swap Dealers Association (ISDA) master agreement for foreign exchange and equity over-the-counter derivative counterparties, in the case of default.

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

3.2.4 Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral.

As part of the credit approval process, the RMD is responsible for defining and assessing the acceptability of collateral that is offered. The recovery rates of its credit exposures are determined based on the debt structure of a debtor and its assessment of the collateral based upon such factors as the liquidity of the collateral (which reflects the ability to unwind a position), the price volatility of the collateral, the suitability of the collateral as a hedge to the Group's exposure and the legal ability to apply such collateral.

Collateral held as security for financial assets is determined by the nature of the instrument. Generally, loans are secured by various forms of collateral including listed stocks, properties, debt securities, and other credit enhancements. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

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

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

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

3.2.5 Maximum exposure to credit risk before collateral held or other credit enhancement

As at 31 December 2010 and 2011, the maximum exposure to credit risk for each category of financial assets is the carrying amount stated in the consolidated financial position.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group resulting from its loans and receivables, debt securities, derivatives and cash and bank balances based on the following:

- Margin loans are fully backed by collateral. The Group generally accepts collateral in the form of cash, investment grade securities, liquid bonds, liquid stocks, and principal protected structured notes. No margin loans were considered to be impaired. All margin loans were individually fully collaterised.

- Term loans to individuals and corporate are fully backed by various types of collaterals, including listed stocks, properties, insurance policies and deposits, with fair value of collaterals greater than the outstanding loan amounts. No term loans were considered to be impaired as at the end of the reporting periods.

- Available-for-sale debt investments are mainly unlisted club debentures with insignificant credit risk exposure.

- Cash and balances with banks were deposited in reputable large commercial banks, mainly with Bank of China Limited and its related entities. The Group has policies in place ensure that cash and balances with banks are either placed with high credit quality financial institutions or related companies (note 33) with minimum credit risk.

- The Group enters into derivative transactions with international stock exchanges, international financial institutions and financially strong corporate. The Group also enters into derivative transactions for private individuals. The Group reduces credit risk by obtaining collateral and arranging net settlement on certain derivative products. There was no impairment arising from derivative counterparties as at the end of the reporting periods.

- There was no material impairment on accounts receivable for dealing in securities, options and futures contracts as at 31 December 2011 and 2010. Among those unimpaired accounts and other receivables, approximately HK$3,792 million (2010: HK$4,805 million) is receivables from dealing in securities, which normally has a settlement term of two days. Except for the accounts receivable arising from dealing in securities from Bank of China Limited and its related entities as disclosed in note 33, there is no concentration of credit risk with respect to accounts receivable, as the Group has a large number of customers who are internationally dispersed. All the accounts receivable arising from Bank of China Limited and its related entities were fully settled within two business days after the end of the reporting periods.

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

3.2.6 Loans and receivables - Overdue and provision

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

	2011 HK$'000	2010 HK$'000
Loans to customers		
Neither past due nor impaired	6,974,698	6,870,679
Past due but not impaired	210,098	136,771
Gross	7,184,796	7,007,450
Accounts and other receivables		
Neither past due nor impaired	4,001,214	5,500,644
Past due but not impaired	1,193	447
Impaired	252	252
Gross	4,002,659	5,501,343
Impairment allowance	(252)	(252)
Total	11,187,203	12,508,541

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

	2011 HK$'000		2010 HK$'000	
Individual	Margin loans	Account receivables from dealing in securities	Margin loans	Account receivables from dealing in securities
Past due 1 day	12,201	122	38	279
Past due 2 - 5 days	93,296	-	27,538	-
Past due 6 - 30 days	6,646	10	1,123	4
Past due over 30 days	96,923	4	80	134
Total	209,066	136	28,779	417
Fair value of collateral	511,977	708	54,153	1,383
Corporate				
Past due 1 day	1,032	571	-	-
Past due 2 - 5 days	-	-	-	1
Past due 6 - 30 days	-	454	102,404	-
Past due over 30 days	-	32	5,588	29
Total	1,032	1,057	107,992	30
Fair value of collateral	1,859	601,143	249,598	-

Refer to note 22 for detail movement of impairment allowance.

3 Financial risk management (Continued)

3.2 Credit risk (Continued)

3.2.7 Debt securities - external credit rating

The table below presents an analysis of debt securities by rating agency designation, based on Standard & Poor's ratings or their equivalent:

At 31 December 2011	Available-for-sale assets HK$'000
Unrated	1,255

At 31 December 2010	Available-for-sale assets HK$'000
AAA	9,990
Unrated (note)	51,412
	61,402

Note:

As at 31 December 2010, the unrated available-for-sale securities mainly consisted of certificate of deposits issued by one of the major banks in People's Republic of China.

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 balance sheet assets arise from securities turnover and collateralised margin lending for securities clients. The maturity profile of the Group's asset portfolio is therefore short-term skewed with high turnover ratio in assets. Appropriate credit control is in place to ensure that brokerage transactions are settled on time. This reduces liquidity concern on the Group when acting in the capacity of an agent. To fulfill the funding needs, the Group relies on acquiring short-term liquidity in order to gain the flexibility in matching with funding movement. The short-term funding needs are growing at a high speed as the businesses are expanding rapidly. Nevertheless, with the strong liquidity support from Bank of China Limited, the growing short-term funding needs are met.

The Group measures and monitors their net funding requirements by constructing maturity profile that projects future cash flows arising from assets, liabilities and off balance sheet transactions.

3.3.1 Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Group under non-derivative financial liabilities, derivative financial liabilities that will be settled on a net basis and derivative financial assets/liabilities that will be settled on gross basis by remaining contractual maturities at the end of reporting period.

The Group's derivatives that will be settled on a net basis include:
- Interest rate derivatives: interest rate swaps, futures, forwards and swaptions;
- Equity derivatives: listed and over-the-counter stock options, listed index options, equity swaps, exchange-traded futures;
- Credit derivatives: credit default swaps; and
- Foreign exchange rate derivatives: non-deliverable forwards, options

The Group's derivatives that will be settled on a gross basis include:
- Interest rate derivatives: cross currency interest rate swaps; and
- Foreign exchange rate derivatives: currency forward

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

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.1 Undiscounted cash flows by contractual maturities (Continued)

At 31 December 2011	On demand and up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 years HK$'000	Total HK$'000
Non-derivative cash flow					
Liabilities					
Bank loans and other borrowings – unsecured	465,905	-	-	-	465,905
Subordinated loans from immediate holding company	1,785,645	-	503,620	-	2,289,265
Amounts due to immediate holding company	2,337,029	234,383	-	-	2,571,412
Amounts due to fellow subsidiaries	200,000	-	-	-	200,000
Accounts and other payables	4,306,100	10,111	225,146	61,766	4,603,123
Deposits from customers	10,352,662	926,765	39,153	-	11,318,580
Financial liabilities at fair value through profit or loss	237,605	-	-	-	237,605
	19,684,946	1,171,259	767,919	61,766	21,685,890
Cash flow from derivative financial assets and liabilities (note)					
Settled on net basis	1,607	-	3,269	-	4,876
Settled on gross basis					
Total inflow	(6,559,858)	(2,987)	(20,419)	-	(6,583,264)
Total outflow	6,557,818	3,003	20,411	-	6,581,232
	(2,040)	16	(8)	-	(2,032)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.1 Undiscounted cash flows by contractual maturities (Continued)

At 31 December 2010	On demand and up to 1 month HK$'000	1-3 months HK$'000	3-12 months HK$'000	1-5 Years HK$'000	Total HK$'000
Non-derivative cash flow					
Liabilities					
Bank loans and other borrowings – unsecured	150,000	-	-	-	150,000
Subordinated loans from immediate holding company	2,286,418	-	-	-	2,286,418
Amounts due to immediate holding company	3,895,560	-	301,924	-	4,197,484
Amounts due to fellow subsidiaries	333,970	-	-	-	333,970
Accounts and other payables	4,819,361	14,000	445,342	136,239	5,414,942
Deposits from customers	5,348,325	559,508	251,997	-	6,159,830
Financial liabilities at fair value through profit or loss	105,883	-	-	-	105,883
	16,939,517	573,508	999,263	136,239	18,648,527
Cash flow from derivative financial assets and liabilities (note)					
Settled on net basis	6,955	19,532	45,010	960	72,457
Settled on gross basis					
Total inflow	(2,366,130)	(193,723)	(194,350)	-	(2,754,203)
Total outflow	2,365,289	194,350	193,450	-	2,753,089
	(841)	627	(900)	-	(1,114)

3 Financial risk management (Continued)

3.3 Liquidity risk (Continued)

3.3.1 Undiscounted cash flows by contractual maturities (Continued)

The majority of the Group's financial assets are highly liquid. However, the Group did not manage its liquidity risk by matching its financial assets against the financial liabilities.

Note
During the year, the Group entered a number of derivative transactions, of fair value approximately HK$99.6 million as at 31 December 2011 (2010: HK$42 million), with individual customers ("the originating transactions"). At the same time, the Group entered transactions with same terms and conditions with other financial institutions for hedging purpose ("the back-to-back transactions"). Both the originating transactions and the back-to-back transactions are excluded from the above undiscounted cash flow table.

3.4 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 exotic treasury products, such as complex structured securities, RMD shall analyse and assess fair values by obtaining quoted prices from multiple sources, including open market or counterparties.

For financial instruments measured at fair value using a valuation technique, the total amount of the change in fair value estimated using a valuation technique that was recognised in consolidated income statement during the year is approximately a gain of HK$2,804,000 (2010: gain of HK$16,895,000).

3 Financial risk management (Continued)

3.4 Fair value of financial assets and liabilities (Continued)

(b) Financial instruments not measured at fair value

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

(c) Fair value hierarchy

HKFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like bond futures.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of debt securities without active secondary markets, the OTC derivative contracts and issued structured notes. The sources of input parameters like HIBOR or LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes debt or equity instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3 Financial risk management (Continued)

3.4 Fair value of financial assets and liabilities (Continued)

(c) Fair value hierarchy (Continued)

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

At 31 December 2010	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Financial assets at fair value through profit and loss			
- Equity securities	2,700,323	-	2,700,323
Derivatives financial instruments	-	65,193	65,193
Available-for-sale financial assets			
- Debt securities	-	60,327	60,327
- Club debentures	-	1,075	1,075
Total assets	2,700,323	126,595	2,826,918
Financial liabilities at fair value through profit and loss			
- Equity securities	105,883	-	105,883
Derivatives financial instruments	124,094	62,510	186,604
Total liabilities	229,977	62,510	292,487

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$3,599,776,021 (2010: HK$3,328,512,339) on the face of consolidated statement of financial position and the subordinated loans from the immediate holding company of HK$2,285,000,000 (2010: HK$2,285,000,000), are:

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

Capital adequacy of the banking subsidiary of the Group are monitored daily by the Group's management, employing techniques based on the Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority ("HKMA") on a quarterly basis.

The HKMA requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum of 10%.

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

During the year ended 31 December 2011 and 2010, the banking subsidiary complied with all externally imposed capital requirements by the HKMA. The subsidiaries regulated by SFC complied with the statutory capital requirement.

4 Segment Information

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

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Executive Committee as its chief operating decision maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment income and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

The main business segments of the Group are as follows:

Investment banking	• Provides a wide range of securities origination services for issuer clients, including underwriting and placement of public and private equity, debt and related securities. • Advices clients on mergers, acquisitions and restructurings.
Brokerage & wealth management	• Provides brokerage, margin financing service, and private banking to individual and institutional clients.
Fixed income & equity market	• Facilitates client transactions and makes markets in securities, derivatives, currencies, commodities and other financial instruments to satisfy client demands. • Engages in principal and in proprietary trading activities.
Leverage & structured finance	• Provides structured financing and financial advisory services.

No segment assets and segment liabilities are disclosed as no such information are presented to the Executive Committee, who is the chief operating decision maker.

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

No individual customer, except for Bank of China Limited and its subsidiaries, contributed more than 10% of each individual segment income above. Please refer to note 33 for details of the related party transactions.

4 Segment information (Continued)

The Group's segment results for the year ended 31 December 2011 and 2010 is as follows:

31 December 2011	Investment banking HK$'000	Brokerage & wealth management HK$'000	Fixed income & equity market HK$'000	Leveraged & structured finance HK$'000	Treasury and others HK$'000	Elimination HK$'000	Total HK$'000
Total income - external	267,142	1,924,466	(202,414)	38,423	98,013	-	2,125,630
Total income – inter-segment	-	-	-	-	13,826	(13,826)	-
Commission and clearing expense	(5,587)	(571,616)	(7,610)	(66)	2,250	-	(582,629)
Depreciation	(378)	(18,146)	(362)	(91)	(200)	-	(19,177)
Other operating expenses	(201,001)	(488,878)	(73,728)	(13,814)	20,885	-	(756,536)
Finance costs - external	-	(67,417)	(5)	(23)	(46,582)	-	(114,027)
Finance costs – inter-segment	-	(11,034)	-	(2,792)	-	13,826	-
Segment results	60,176	767,375	(284,119)	21,637	88,192	-	653,261
Unallocated cost							(346,853)
Operating profits							306,408

31 December 2010	Investment banking HK$'000	Brokerage & wealth management HK$'000	Fixed income & equity market HK$'000	Leveraged & structured finance HK$'000	Treasury and others HK$'000	Elimination HK$'000	Total HK$'000
Total income - external	516,944	2,307,299	407,339	52,076	3,383	-	3,287,041
Total income – inter-segment	-	-	-	-	49,609	(49,609)	-
Commission and clearing expense	(31)	(691,956)	(20,805)	(10)	2,828	-	(709,974)
Depreciation	(652)	(42,656)	(3,558)	(133)	(419)	-	(47,418)
Other operating expenses	(380,832)	(694,906)	(105,338)	(12,496)	9,305	-	(1,184,267)
Finance costs - external	-	(36,814)	(490)	(1)	(31,342)	-	(68,647)
Finance costs – inter-segment	-	(44,916)	(3,023)	(1,670)	-	49,609	-
Segment results	135,429	796,051	274,125	37,766	33,364	-	1,276,735
Unallocated cost							(250,865)
Operating profits							1,025,870

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5 Revenue and trading gain/(loss), net

(a) Revenue

	2011 HK$	2010 HK$
Brokerage commission	1,324,946,448	1,643,701,241
Underwriting and placement commission	486,068,181	781,416,492
Corporate finance and loan syndication fees	37,662,676	69,909,122
Interest income from bank deposits and loans to customers	377,510,877	299,163,414
Dividend income from financial assets held for trading – listed investments	61,618,627	39,276,583
	2,287,806,809	2,833,466,852

(b) Trading gain/(loss), net

	2011 HK$	2010 HK$
Net realised/unrealised gain/(loss) on financial assets and financial liabilities (note)		
- Equity securities	(594,029,042)	(69,814,236)
- Debt securities	33,059,067	15,082,699
- Derivative financial instruments	188,068,702	259,954,937
- Equity/credit linked instruments	-	(447,849)
	(372,901,273)	204,775,551

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.

There was no net realised/unrealised gain/(loss) on financial assets and financial liabilities designated by the Group as fair value through profit or loss (2010: loss of HK$447,849). Net realised/unrealised loss on trading financial assets or financial liabilities amounted to HK$372,901,273 (2010: gain of HK$205,223,400).

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

	2011 HK$	2010 HK$
Trading (loss)/gain from listed investments	(426,302,738)	189,526,108
Trading gain from unlisted investments	53,401,465	15,249,443
	(372,901,273)	204,775,551

6 Other income

	Note	2011 HK$	2010 HK$
Management fee income from related companies	33	86,265,156	169,767,178
Handling and custodian fees		67,988,197	61,689,970
Foreign exchange gain, net		43,475,706	8,971,631
Interest income from			
– Related companies	33	8,971,443	-
– Others		1,381,451	607,524
Others (note)		2,642,340	7,762,006
		210,724,293	248,798,309

Note:
Other income includes gain on disposal of plant and equipment of HK$1,107,523 (2010: HK$Nil).

7 Staff costs

	2011 HK$	2010 HK$
Wages, salaries, other allowances and unutilised annual leave	300,535,634	264,648,354
Discretionary bonus		
- Short term employee benefits (note)	143,130,001	411,063,865
- Other long-term employee benefits	16,271,999	102,475,761
- Forfeited bonus	(22,228,942)	(22,232,972)
Pension costs – defined contribution plans	17,479,612	12,483,162
Staff medical, recruitment, training, welfare expenses and termination benefits	28,936,517	24,109,194
	484,124,821	792,547,364

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

8 Directors' emoluments

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

	2011 HK$	2010 HK$
Fees	-	-
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	7,411,533	7,205,440
Contributions to pension schemes	452,376	412,501
Discretionary bonus		
- Short term employee benefits	14,300,001	36,300,000
- Other long-term employee benefits	5,199,999	13,200,000
	27,363,909	57,117,941

In addition to the directors' emoluments disclosed above, certain directors of the Company received emoluments from the immediate holding company and a fellow subsidiary, which totals HK$13,839,183 (2010: HK$45,873,536), part of which is in respect of their services to the Group, the immediate holding company and its fellow subsidiaries. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the Company's immediate holding company and the fellow subsidiaries.

During the year, there were no loans to directors and officers which are required to be disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance.

9 Other operating expenses

	2011 HK$	2010 HK$
Advertising expenses	16,182,135	24,632,823
Auditors' remuneration	839,700	852,850
Bank charges	7,349,856	7,060,192
Insurance	1,021,182	1,180,335
Legal and professional fees	6,748,221	6,948,558
Printing and stationary	4,350,308	4,022,274
Repairs and maintenance	699,265	751,316
Travel and entertainment	45,664,908	41,393,001
Utilities	3,948,077	4,025,006
Write-off of plant and equipment	119,082	1,047,582
License and registration fees	12,512,502	16,831,240
Others	8,768,917	7,643,629
	108,204,153	116,388,806

10 Finance costs

	2011 HK$	2010 HK$
Interest expenses:		
- deposits from customers	46,530,452	17,776,519
- securities brokerage clients	843,057	215,172
- bank loans and other borrowings – unsecured	66,653,075	50,655,129
	114,026,584	68,646,820

11 Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 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	2011 HK$	2010 HK$
Current income tax:			
- Hong Kong profits tax		88,431,647	148,633,115
- PRC withholding tax		4,722,154	4,400,900
- Over provisions in prior years		(6,148)	(10,419,976)
Deferred income tax	18	(57,832,063)	12,608,544
		35,315,590	155,222,583

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:

	2011 HK$	2010 HK$
Profit before taxation	306,408,062	1,025,870,048
Tax calculated at 16.5% (2010: 16.5%)	50,557,330	169,268,558
Income not subject to tax	(20,361,456)	(10,586,782)
Expenses not deductible for tax purposes	4,829,404	6,954,752
Over provisions in prior years	(6,148)	(10,419,976)
Others	296,460	6,031
Income tax expense	35,315,590	155,222,583

12 Profit attributable to equity holders

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$278,428,926 (2010: HK$846,950,239).

13 Dividends

	2011 HK$	2010 HK$
No dividend was declared and paid during the year (2010: interim dividend: HK$5,100 per ordinary share)	-	1,020,000,000

14 Plant and equipment

The Group

	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Electronic equipment HK$	Total HK$
At 1 January 2010				
Cost	16,284,764	2,311,623	172,720,255	191,316,642
Accumulated depreciation	(8,290,950)	(1,334,482)	(110,325,303)	(119,950,735)
Net book amount	7,993,814	977,141	62,394,952	71,365,907
Year ended 31 December 2010				
Opening net book amount	7,993,814	977,141	62,394,952	71,365,907
Additions	6,189,129	1,040,270	2,411,876	9,641,275
Write-off	(1,015,291)	(22,636)	(9,655)	(1,047,582)
Depreciation	(2,663,885)	(414,517)	(44,339,775)	(47,418,177)
Net book amount	10,503,767	1,580,258	20,457,398	32,541,423
At 31 December 2010				
Cost	17,689,689	3,012,800	173,213,948	193,916,437
Accumulated depreciation	(7,185,922)	(1,432,542)	(152,756,550)	(161,375,014)
Net book amount	10,503,767	1,580,258	20,457,398	32,541,423
Year ended 31 December 2011				
Opening net book amount	10,503,767	1,580,258	20,457,398	32,541,423
Additions	1,253,234	552,718	41,251	1,847,203
Write-off	(74,266)	(24,445)	(20,371)	(119,082)
Disposal	-	(59,161)	-	(59,161)
Depreciation	(3,479,591)	(562,995)	(15,133,997)	(19,176,583)
Net book amount	8,203,144	1,486,375	5,344,281	15,033,800
At 31 December 2011				
Cost	18,721,393	3,413,639	169,241,553	191,376,585
Accumulated depreciation	(10,518,249)	(1,927,264)	(163,897,272)	(176,342,785)
Net book amount	8,203,144	1,486,375	5,344,281	15,033,800

14 Plant and equipment (Continued)

The Company

	Leasehold improvement HK$	Furniture, fixtures and equipment HK$	Electronic equipment HK$	Total HK$
At 1 January 2010				
Cost	817,839	327,426	2,637,689	3,782,954
Accumulated depreciation	(273,455)	(165,754)	(1,976,429)	(2,415,638)
Net book amount	544,384	161,672	661,260	1,367,316
Year ended 31 December 2010				
Opening net book amount	544,384	161,672	661,260	1,367,316
Additions	-	728,980	4,325	733,305
Write-off	-	-	(2,236)	(2,236)
Depreciation	(163,568)	(95,050)	(439,136)	(697,754)
Closing net book amount	380,816	795,602	224,213	1,400,631
At 31 December 2010				
Cost	817,839	1,051,406	2,636,853	4,506,098
Accumulated depreciation	(437,023)	(255,804)	(2,412,640)	(3,105,467)
Net book amount	380,816	795,602	224,213	1,400,631
Year ended 31 December 2011				
Opening net book amount	380,816	795,602	224,213	1,400,631
Write-off	(55,174)	(17,501)	(24,446)	(97,121)
Depreciation	(132,120)	(185,075)	(152,638)	(469,833)
Closing net book amount	193,522	593,026	47,129	833,677
At 31 December 2011				
Cost	623,389	978,426	2,449,058	4,050,873
Accumulated depreciation	(429,867)	(385,400)	(2,401,929)	(3,217,196)
Net book amount	193,522	593,026	47,129	833,677

15 Intangible assets

The Group

	Goodwill HK$	Club membership HK$	Total HK$
Net book amount at 1 January 2010 and 31 December 2010	49,715,218	-	49,715,218
Additions	-	291,319	291,319
Closing net book amount	49,715,218	291,319	50,006,537

The goodwill in the Group is mostly attributable to securities brokerage business, the cash-generating units (CGU). No impairment loss was noted in 2011 and 2010, as the CGU involved was highly profitable. In 2011, net profit of HK$425,490,833 (2010: HK$546,196,801) was generated by the securities brokerage business.

16 Investment in subsidiaries

	2011 HK$	2010 HK$
Investment at cost:		
Unlisted shares	1,722,792,046	1,137,792,046

The following is a list of the subsidiaries at 31 December 2011:

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.

On 19 October 2011, the authorised share capital of Bank of China International Limited was increased from HK$415 million to HK$5,000 million at HK$1,000 each. Following the increase, Bank of China International Limited issued and allotted 585,000 ordinary shares at HK$1,000 each for cash to the Company. The new shares ranked pari passu as other shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17 Disposal of a subsidiary

On 10 March 2011, the Group disposed of its entire equity interest in BOCI Commodities and Futures Limited ("BOCI C&F") to a fellow subsidiary, BOCI Global Commodities Holdings Limited, at its carrying value at a cash consideration of HK$70,000,000. No gain or loss on disposal of subsidiary was recognized in the consolidated income statement.

The carrying value of the assets and liabilities of BOCI C&F at the date of disposal date were as follows:

	HK$
ASSETS	
Statutory deposits and other assets	2,000
Accounts due from subsidiaries	25,630,169
	25,632,169
Total assets	
LIABILITIES	
Others payables and accrued expenses	(20,600)
Total liabilities	(20,600)
Net assets other than cash at bank and short-term bank deposits	25,611,569
Satisfied by cash consideration received	70,000,000
Cash at bank in BOCI C&F	(44,388,431)
Net cash received on disposal	25,611,569

18 Deferred income tax

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 16.5% (2010: 16.5%).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position

	The Group	
	2011	2010
	HK$	HK$
Deferred tax assets to be recovered within 12 months	55,552,303	-
Deferred tax liabilities to be recovered after more than 12 months	(304,033)	(2,583,793)
	55,248,270	(2,583,793)

	The Company	
	2011	2010
	HK$	HK$
Deferred tax assets to be recovered within 12 months	55,552,303	-

18 Deferred income tax (Continued)

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets – The Company and the Group

	Note	Tax losses HK$
At 1 January 2010		16,871,034
Recognised in the consolidated income statement	11	(16,871,034)
At 31 December 2010 and 1 January 2011		-
Recognised in the consolidated income statement	11	55,552,303
At 31 December 2011		55,552,303

Deferred tax liabilities – The Group

		Accelerated tax depreciation HK$
At 1 January 2010		6,846,283
Recognised in the consolidated income statement	11	(4,262,490)
At 31 December 2010 and 1 January 2011		2,583,793
Recognised in the consolidated income statement	11	(2,279,760)
At 31 December 2011		304,033

The Group and the Company has no significant unrecognized deferred tax position on tax losses (2010 HK$ Nil).

19 Available-for-sale financial assets

The Group

	2011 HK$	2010 HK$
Non-current assets		
- Club debentures, unlisted	1,255,000	1,075,000
Current assets		
- Debt securities, unlisted	-	9,990,000
- Certificate of deposits, unlisted	-	50,337,452
	-	60,327,452

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

The Group

	2011 HK$	2010 HK$
At 1 January	61,402,452	855,000
Additions	-	60,510,673
Amortisation	45,283	328,079
Net change in fair value	171,210	228,790
Sale and redemption	(60,363,945)	(520,090)
At 31 December	1,255,000	61,402,452

20 Financial assets at fair value through profit or loss

The Group

	2011 HK$	2010 HK$
Trading securities - at fair value		
- Equity securities, listed in Hong Kong	475,874,742	2,700,322,610
Market value of listed securities	475,874,742	2,700,322,610

The Company

	2011 HK$	2010 HK$
Trading securities - at fair value		
- Equity securities, listed in Hong Kong	475,213,179	2,699,435,201
Market value of listed securities	475,213,179	2,699,435,201

21 Derivative financial instruments

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

Derivatives	Description
Forwards and futures	These instruments are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter (OTC) market, whereas futures are standardised contracts transacted on regulated exchanges. The major types of forward and futures transactions undertaken by the Group are index futures.
Options	Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded OTC or on a regulated exchange, and may be traded in the form of securities (warrants).
Swaps	These are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. Most swaps are traded OTC. The major types of swap transactions undertaken by the Group are as follows: • Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies or interest rates (for example, fixed rate for floating rate); • Credit default swaps are the most common form of credit derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following a credit event (as defined in the contract) with respect to a third party. Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity (as defined in the contract) and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is terminated; and • Equity swaps give the receiver exposure to the cash flows and economic benefits and risks of an underlying asset, without having to own the asset, in exchange for a series of payments, often based on a reference interest rate, e. g. LIBOR. The equity swap payer has an equal and opposite position. • Equity swaps are commitments to exchange on set of cash flows for equity securities with reference to the price of the underlying equity securities.

21 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 periodss and certain of them provide a basis for comparison with fair value instruments recognised in the consolidated balance sheet. 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.

21 Derivative financial instruments (Continued)

The Group

Derivatives – held for trading	Notional Amount HK$'000	Assets HK$	Liabilities HK$
At 31 December 2011			
Exchange rate contracts	11,097,525	12,002,912	10,256,895
Equity contracts	2,527,110	111,542,149	140,182,973
		123,545,061	150,439,868
At 31 December 2010			
Exchange rate contracts	2,754,203	4,898,471	4,225,381
Equity contracts	4,408,650	60,294,780	182,378,405
		65,193,251	186,603,786

The Company

Derivatives – held for trading	Notional Amount HK$'000	Assets HK$	Liabilities HK$
At 31 December 2011			
Equity contracts	1,356,475	16,941,809	45,582,633
At 31 December 2010			
Exchange rate contracts	19,435	-	3,476
Equity contracts	3,044,451	18,799,159	140,882,784
		18,799,159	140,886,260

22 Loans and receivables

The Group

	2011 HK$	2010 HK$
Accounts receivable from dealing in securities	3,792,424,996	4,805,462,742
Accounts receivable from securities trading	49,554,450	158,881,103
Amount due from an associate company	64,458,000	99,165,000
Fees and commission receivable	59,105,456	384,300,945
Deposits, prepayments and other receivables	37,116,034	53,533,525
Gross	4,002,658,936	5,501,343,315
Impairment allowance	(252,105)	(252,105)
	4,002,406,831	5,501,091,210
Loans to customers	7,184,796,478	7,007,449,549
Total	11,187,203,309	12,508,540,759

The Company

	2011 HK$	2010 HK$
Accounts receivable from securities trading	76,887,831	175,311,430
Amount due from an associate company	64,458,000	99,165,000
Fees and commission receivable	59,105,456	384,300,945
Deposits, prepayments and other receivables	5,381,014	3,404,791
Gross	205,832,301	662,182,166
Impairment allowance	(252,105)	(252,105)
Total	205,580,196	661,930,061

The carrying amounts of accounts and other receivables approximate their fair value.

As at 31 December 2011, the loans to customers, which included approximately HK$6,180 million (2010: HK$6,629 million) of receivables from margin clients, were secured by listed securities held as collateral of fair value of HK$47,246 million (2010: HK$57,910 million) and a cash deposit of HKD270 million (2010: HK$Nil). The Group is permitted to sell or re-pledge such collateral. As at 31 December, there were no collateral re-pledged.

The receivables had excluded the brokerage client monies maintained in the trust accounts with a clearing participant, Hong Kong Futures Exchange Clearing Corporation Limited and the Stock Exchange Options Clearing House of approximately HK$120 million, HK$90 million and HK$117 million respectively as at 31 December 2011 (2010: HK$112 million, HK$304 million and HK$199 million respectively).

The movement in individually assessed impairment allowance on loans to customers is insignificant. As of 31 December 2011, fees and commission receivables of HK$252,105 (2010: HK$252,105) were fully impaired and provided for. The individually impaired receivables mainly related to uncertain recoverability.

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23 Cash and balances with banks

	The Group 2011 HK$	The Group 2010 HK$
Cash at banks and in hand	6,716,706,504	288,701,936
Short-term bank deposits		
– with original maturity within three months	5,634,371,109	5,020,312,388
– with original maturity over three months	-	156,776,859
Placements with banks		
– with original maturity within three months	856,494,173	-
– with original maturity over three months	307,445,312	1,340,673,654
	13,515,017,098	6,806,464,837

	The Company 2011 HK$	The Company 2010 HK$
Cash at banks and in hand	160,214,726	24,570,864
Short-term bank deposits		
– with original maturity within three months	431,673,347	11,368,518
	591,888,073	35,939,382

The Group maintains trust accounts with authorized institutions and other financial institutions as part of its normal business transactions. At 31 December 2011, trust accounts with authorized institutions and other financial institutions not otherwise dealt with in the financial statements amounted to approximately HK$12,813 million (2010: HK$11,050 million).

24 Amounts due from/to fellow subsidiaries

Amounts due from/to fellow subsidiaries are non-interest bearing. The carrying balances of the amounts due from/to fellow subsidiaries approximate their fair value.

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

As at 31 December 2011, the Company has borrowed securities with market value of HK$289,666,982 (2010: HK$64,007,370) from a fellow subsidiary and placed a cash collateral of HK$264,897,181 (2010: HK$83,953,125) and lent securities with market value of HK$394,686,756 (2010: HK$378,867,190) to the fellow subsidiary and received a cash collateral of HK$463,772,435 (2010: HK$386,326,843).

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

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

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

- An amount of HK$381,743,604 (2010: HK$364,791,057) and HK$95,451,063 (2010: HK$258,118,505) were paid by the immediate holding company on behalf of the Group and the Company respectively for daily administrative activities, which are unsecured, interest free and repayable upon demand.

- An amount of HK$1,870,482,355 (2010: HK$4,330,000,000) and HK$317,176,191 (2010: HK$580,000,000) were borrowed from the immediate holding company by the Group and the Company respectively for cash management and general funding purpose, which are unsecured and bears prevailing market interest rate. Relevant balances with the immediate holding company would be due within a year after the end of the reporting periods.

- As at 31 December 2011, an amount of HK$317,113,092 was borrowed from the immediate holding company by the Group for cash management purpose, which is unsecured, interest free and repayment upon demand. As at 31 December 2010, an amount of HK$498,193,477 was lent to the immediate holding company by the Group for the same purposes and terms.

- As at 31 December 2011, an amount of HK$978,253,684 (2010: HK$26,222,790) was lent to the immediate holding company by the Company for cash management purpose, which is unsecured, interest free and repayment upon demand.

As at 31 December 2011, the Company was provided subordinated loans of HK$385 million (2010: HK$385 million) by immediate holding company which bears interest at an annual rate of one month HIBOR plus 50 basis points.

As at 31 December 2011, a subsidiary of the Company was also provided with a subordinated loan of HK$1,900 million (2010: HK$1,900 million) by immediate holding company which bears, which also bears interest at an annual rate of one month HIBOR plus 50 basis points.

Among the total subordinated loans of HK$2,285 million (2010: HK$2,285 million), subordinated loans of HK$1,500 million (2010: HK$1,500 million) 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.

26 Accounts and other payables

The Group

	2011 HK$	2010 HK$
Accounts payable from dealing in securities	4,229,326,186	4,602,053,478
Accounts payable from securities trading	4,012,856	-
Discretionary bonus payable	278,447,605	542,866,591
Others payables and accrued expenses	91,335,053	270,022,151
	4,603,121,700	5,414,942,220

The Company

	2011 HK$	2010 HK$
Accounts payable from securities trading	-	81,132,790
Discretionary bonus payable	134,077,000	281,121,000
Other payables and accrued expenses	29,859,635	67,720,373
	163,936,635	429,974,163

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

Accounts payable represent amounts due to brokerage clients, brokers and clearing houses, and are due within one month. Accounts payable to clients exclude those payables placed in trust accounts with authorized institutions, Hong Kong Futures Exchange Clearing Corporation Limited and Stock Exchange Options Clearing House and other financial institutions, which amounted to approximately HK$13,140 million as at 31 December 2011 (2010: HK$11,665 million).

27 Deposits from customers

All the deposits from customers are time, call and notice deposits and maturing within three months. Deposits from related parties are set out in note 33.

28 Financial liabilities at fair value through profit or loss

The Group

	2011 HK$	2010 HK$
Trading securities – at fair value		
- Equity securities, listed in Hong Kong	237,605,400	105,882,528

The Company

	2011 HK$	2010 HK$
Trading securities – at fair value		
- Equity securities, listed in Hong Kong	237,605,400	105,839,453

During the year, the Company has entered into securities borrowing and lending arrangements with a fellow subsidiary. Under securities borrowing and lending agreement, cash collateral was required and collected for securities borrowed and lent respectively. No interest was charged on the collateral deposits received and placed. Refer to note 24 for details.

29 Share capital

	2011 HK$	2010 HK$
Authorised, issued and fully paid:		
200,000 ordinary shares of HK$10,000 each	2,000,000,000	2,000,000,000

30 Retained earnings

The Company

	Note	2011 HK$	2010 HK$
Balance at 1 January		340,405,727	513,455,488
Profit for the year	12	278,428,926	846,950,239
Dividends	13	-	(1,020,000,000)
At 31 December		618,834,653	340,405,727

31 Cash flow from operating activities

Reconciliation of profit before taxation to net cash inflow from operating activities:

	2011 HK$	2010 HK$
Profit before taxation	306,408,062	1,025,870,048
Interest income	(387,863,771)	(299,770,938)
Interest expense	114,026,584	68,646,820
Dividend income	(61,618,627)	(39,267,583)
Depreciation	19,176,583	47,418,177
Amortization of available-for-sale financial assets	(45,283)	(328,079)
Gain on disposal of plant and equipment	(1,107,523)	-
Write-off of plant and equipment	119,082	1,047,582
	(10,904,893)	803,616,027
Decrease/(increase) in loans and receivables	1,323,808,586	(898,338,129)
Increase in derivative financial instruments (assets)	(58,351,810)	(58,475,606)
Decrease/(increase) in financial assets at fair value through profit or loss	2,224,447,868	(2,064,045,918)
Decrease/(increase) in placements with banks with original maturity over three months	1,190,005,201	(864,265,654)
Increase in bank loans and other borrowings – unsecured	315,905,096	150,000,123
Decrease/(increase) in balance with immediate holding company	(1,652,888,698)	5,579,810,317
Movement in balance with fellow subsidiaries	(133,970,257)	(1,374,259,210)
(Decrease)/increase in derivative financial instruments (liabilities)	(36,163,918)	98,100,570
Decrease in accounts and other payables	(811,799,920)	(870,484,263)
Increase in deposits from customers	5,149,921,859	3,684,312,848
Increase/(decrease) in financial liabilities at fair value through profit or loss	131,722,872	(296,287,767)
Dividend received	61,618,627	39,267,583
Interest received	385,392,635	300,203,569
Interest paid	(108,880,267)	(64,100,674)
Hong Kong and overseas tax paid	(164,581,749)	(87,429,295)
Net cash inflow from operating activities	7,805,281,232	4,077,624,521

32 Contingent liabilities and commitments

(a) Commitments under operating leases

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

	The Group 2011 HK$	2010 HK$
Land and buildings:		
Less than one year	36,226,592	35,690,698
Between one and five years	10,173,778	44,831,899
	46,400,370	80,522,597

	2011 HK$	2010 HK$
Equipment:		
Less than one year	436,899	495,075
Between one and five years	184,670	627,307
	621,569	1,122,382

(b) Loan commitment

As at 31 December 2011, the Group has no non-cancellable loan commitment (2010: HK$128,057,823).

(c) Legal proceedings

In September 2010, the Company commenced legal proceedings against a listed company for HK$4.5 million, representing financial advisory fee for services rendered to it. Subsequently in December 2010, the listed company filed a counterclaim for HK$236 million against the Company. Management of the Group considers the counterclaim groundless and invalid. No provision is made on this claim as of 31 December 2010.

In August 2011, the Company has reached an agreement with the listed company, where the listed company agree to make a payment to the Company to settle the claim and to withdraw from the counterclaim.

33 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.

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 group companies in BOCI Group, Bank of China Limited and its subsidiaries, and associates of BOCI Group

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

2010	Note	BOCI Group HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOCI Group HK$'000
Consolidated income statement				
Interest income from bank deposits	i	-	46,130	-
Brokerage commission	ii	69,840	758,272	1,294
Underwriting and placement commission	iii	-	115,388	88,018
Management fee income	iv	169,767	-	-
Other income	i	-	509	-
Interest expense from loans and other borrowings	vii	(42,993)	(2,638)	(5)
Interest expense on customer deposits	viii	(479)	(257)	-
Commission expenses arising from brokerage activities	ii	(41,492)	(302,939)	-
Management fee expense	v	(366,575)	-	-
Operating lease rental in respect of leased premises	ix	-	(38,191)	-

33 Related-party transactions (Continued)

(a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and associates of BOCI Group (Continued)

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

2010	Note	BOCI Group HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOCI Group HK$'000
Consolidated statement of financial position				
Bank balances and cash	i	-	6,733,804	-
Accounts receivable arising from dealing in securities	ii	520,233	3,163,606	-
Fee and commission receivables and others	iii	-	116,689	99,165
Derivative financial instruments (assets)	vi	2,157	2,741	-
Deposits from customers	viii	81,176	252,556	-
Bank loans and other borrowings	vii	-	150,000	-
Accounts payable arising from dealing in securities	ii	616,464	3,207,183	-
Derivative financial instruments (liabilities)	vi	2,040	1,091	1,091

33 Related-party transactions (Continued)

(a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and associates of BOCI Group (Continued)

(i) Interest income from bank deposits and bank balances

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.

(ii) Commission income and expense arising from brokerage activities

During the year, the Group earned brokerage commission from securities dealing of approximately HK$29,051,000 and HK$620,808,000 (2010: approximately HK$69,840,000 and HK$758,272,000) from fellow subsidiaries in BOC International Holdings Limited and Bank Of China Limited and its related entities as a result of securities transactions executed in Hong Kong. In return, the Group paid approximately HK$15,342,000 and HK$222,635,000 (2010: approximately HK$41,492,000 and HK$302,939,000) to fellow subsidiaries in BOC International Holdings Limited and BOC Hong Kong (Holdings) Limited for the business entered. As at 31 December 2011, the Group had a net payable of HK$36,785,000 from fellow subsidiaries in BOC International Holdings Limited and net receivable of HK$228,398,000 from BOC Hong Kong (Holdings) Limited (2010: net payable of HK$96,231,000 from fellow subsidiaries in BOC International Holdings Limited and net payable of HK$43,577,000 to BOC Hong Kong (Holdings) Limited) as a result of the above transactions executed.

(iii) Underwriting and placement commission

In the ordinary course of business, the Group provided underwriting and placement services to customers and received underwriting and placement fee income. During the year, the Group earned HK$4,937,000 from Bank of China Limited and its subsidiaries (2010: HK$115,388,000). These commissions earned were executed at the relevant market rates at the time of the transactions. As at 31 December 2011, there is outstanding fee receivable from BOC Hong Kong (Holdings) Limited and its subsidiaries, amounting to HK$813,000 (2010: HK$116,689,000).

An underwriting and placement activity was also jointly conducted by the Group and one of its associates. As at 31 December 2011, the Group has outstanding fee receivable from the associate, amounted to HK$64,458,000 (2010: receivable of HK$99,165,000) for its services provided. Income of HK$53,311,000 (2010: income of HK$88,018,000) was earned from the associate during the year.

(iv) Management fee income

The Group has an agreement with BOCI Financial Products Limited, a fellow subsidiary in BOC International Holdings Limited, under which the Company provides management and administrative services in return for a fee which is agreed and reviewed on an annual basis. This agreement can be terminated by either party giving not less than one month's written notice.

33 Related-party transactions (Continued)

(a) Summary of transactions entered into during the ordinary course of business with group companies in BOCI Group, Bank of China Limited and its subsidiaries, and associates of BOCI Group (Continued)

(v) Management fee expense

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

(vi) Derivative financial instruments assets/liabilities

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

(vii) Bank loans and related interest expenses

In the ordinary course of business, the Group obtained loans from BOC International Holdings Limited and other subsidiaries of Bank of China Limited to finance its margin financing activities and daily operations. The above borrowings were entered at the relevant market rates at the time of the transactions. During the year, the Group paid an interest expense of HK$65,231,000 and HK$354,000 (2010: HK$42,993,000 and HK$2,638,000) for the bank loans obtained from BOC International Holdings Limited and other subsidiaries of Bank of China Limited respectively.

(viii) Deposits from customers and interest expense on customer deposits

In the ordinary course of business, the Group accepted deposits from fellow subsidiaries in BOC International Holdings Limited and other subsidiaries of Bank of China Limited. As at 31 December 2011, the outstanding customer deposits amounted to HK$424,646,000 and HK$2,001,000 (2010: HK$81,176,000 and HK$252,556,000) and interest expenses of HK$922,000 and HK$74,000 (2010: HK$479,000and HK$257,000) were paid during the year.

(ix) Operating lease rental in respect of leased premises

In the ordinary course of business, the Group entered into an office lease agreement with a subsidiary of Bank of China (Hong Kong) Limited. The leases were executed at the relevant market rates at the time of the transactions.

(x) Key management compensation

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

33 Related-party transactions (Continued)

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

The Group has established a charitable fund, named BOC Poverty Relief and Education Charity Fund Limited (the "Charity Fund"), in 2008 and registered with Inland Revenue Department of Hong Kong SAR Government.

During the year, the Group accepted deposits and paid interest expenses of HK$40,000 (2010: HK$22,000) to the Charity Fund. As at 31 December 2011, there is outstanding customer deposits amounting to HK$4,961,000 (2010: HK$21,559,000) placed by the Charity Fund.

34 Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Income taxes

Determining income tax provisions involves significant judgement. There are many transactions and calculation for which the ultimate tax determination is uncertain. The Group evaluates tax implications of transactions and tax provisions are set up accordingly. Deferred tax assets are recognised for tax losses not yet used and temporary deductible difference arising from donation provisions. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

35 Immediate holding company and ultimate holding company

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

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