

**Bank of China International Holdings Limited**  
**Registered number: 3226975**

**Annual report and financial statements for the year ended**  
**31 December 2017**



# **Bank of China International Holdings Limited**

## **Annual report for the year ended 31 December 2017**

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## **Bank of China International Holdings Limited**

### **Directors and advisers**

#### **Directors**

Tong Li (Chairperson)  
Jun Wang  
Alvin Cheng-Hock Chua  
Yui Kwong Kenny Ho  
Siu Hong Fan

#### **Company secretary**

Trevor Cessford  
1 Lothbury, London, EC2R 7DB

#### **Registered office**

1 Lothbury, London, EC2R 7DB

#### **Banker**

The main banker of the Company is Bank of China International Limited.

#### **Independent auditors**

Ernst & Young LLP  
Chartered accountants and statutory auditors  
25 Churchill Place  
London  
E14 5EY

## **Bank of China International Holdings Limited**

### **Directors' report for the year ended 31 December 2017**

The directors present their report and the audited financial statements of Bank of China International Holdings Limited ("the Company", company number 3226975) for the year ended 31 December 2017. Under section 414B of the Companies Act 2006 the Company is entitled to the exemption from preparing a strategic report as the Company would have been entitled to prepare financial statements for the year in accordance with the small companies' regime if it wasn't a member of an ineligible group.

The immediate parent company is BOC International Holdings Limited (a company incorporated in Hong Kong) whose parent company is Bank of China Limited (a company incorporated in China). The parent company of Bank of China Limited is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"). Both Huijin and CIC are companies incorporated in China. BOC International Holdings Limited and its subsidiaries are collectively known as BOCI Group.

#### **Principal activities**

The Company is an investment holding company for its wholly owned direct subsidiaries, Bank of China International (UK) Limited ("BOCI UK"), BOCI Global Commodities (UK) Limited ("GC UK", together the "UK Operating Subsidiaries"), and BOC International (USA) Holdings Inc. ("Holdings US").

During April 2016 the support staff employed by the UK Operating Subsidiaries were transferred to the Company. The Company signed a support agreement with the UK Operating Subsidiaries to supply support services which are charged from the Company to the UK Operating Subsidiaries at cost plus a small mark-up. So since April 2016 the principal operational activity of the Company is to provide back office services for the UK Operating Subsidiaries.

Holdings US is an investment holding company for its wholly owned direct subsidiaries, BOC International (USA) Inc. ("BOCI US") and BOC Commodities & Futures (USA) LLC ("GC US"). The main activity of BOCI UK and BOCI US is equity securities broking for securities traded over the Hong Kong Stock Exchange for institutional clients based in the UK and other European countries and US market respectively. The main activity of GC UK and GC US is commodities brokering on the LME and CME respectively typically on behalf of Asian oriented clients.

#### **Results and dividends**

The loss after tax for the financial year amounted to HK\$23,479,460 (2016: loss after tax HK\$23,694,469). The 2017 loss included an impairment of HK\$25,729,616 (comprised BOCI UK: HK\$7,071,047, GC US HK\$18,658,569) (2016 impairment loss of HK\$24,995,616 (comprised BOCI UK: HK\$1,755,004, GC US HK\$16,434,882 and Holdings US HK\$6,805,730)). The Company did not pay any dividends during the years 2017 and 2016.

#### **Review of business and future development**

As in previous years, the directors anticipate the activities of the Company's subsidiaries will develop in line with the growth and business activities of the BOC International Group ("BOCI Group"), which is based in Hong Kong.

#### **Principal risks and uncertainties**

The principal risk to the business is the risk of impairment to its subsidiaries.

Concerning Brexit, negotiations have just started and it may be up to two years before the final picture becomes clear. The Company does not anticipate being directly affected and the same applies to almost all the subsidiaries. However, for BOCI UK the clients within the EU (excluding the UK) generated HK\$3,087,248 (2016: HK\$3,393,877) of secondary revenue 25.6% (2016: 25.5%) of the total.

#### **Financial risk management**

The activities of the subsidiaries of the Company expose it to the financial risks described below. The risk management programme of the subsidiary companies focus on the unpredictability of financial markets and seeks to minimise potential adverse effects on their financial performance.

## **Bank of China International Holdings Limited**

### **Directors' report for the year ended 31 December 2017 (continued)**

#### **Financial risk management (continued)**

##### **(a) Market risk**

###### **Foreign exchange risk**

The Company has certain investments in companies whose functional currency is not HK\$, therefore the net assets of those operations and any non-HK\$ operations of the Company are exposed to foreign exchange risk.

Foreign exchange ("FX") risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. See note 3 (starting at page 16) for the FX rates and FX currency exposure amounts.

##### **(b) Credit risk**

The Company has credit risk in maintaining deposit relationships with banks (Hong Kong Shanghai Banking Corporation ("HSBC") HK\$1,235,283 (2016: HK\$748,023) and Bank of China International Limited HK\$14,292,700 (2016: HK\$84,175,796)).

The Company's maximum exposure to credit risk relates to its major classes of financial assets, which is cash and balance with bank of HK\$15,527,983 (2016: HK\$84,923,819) and trade and other receivable balances of HK\$13,857,664 (2016: HK\$12,692,771).

None of the financial assets were past due nor impaired and are all of investment grade. The Company holds no collateral or other credit enhancements on any of its assets.

##### **(c) Operational risk**

This is defined as 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 BOC internal policies. Operational risk does not include credit, market, liquidity and reputation risk. The Company is subject to the BOCI Group's "Operational Risk and Control Assessment Procedure" manual dated 13 February 2007. The various processes are tested and reviewed each year and updated as required.

#### **Directors and their interests**

The directors of the Company who were in office during the year and up to the date of signing the financial statements are:

Tong Li (Chairperson)  
Jun Wang  
Alvin Cheng-Hock Chua  
Yui Kwong Kenny Ho  
Siu Hong Fan

## Bank of China International Holdings Limited

### Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Statement of disclosure of information to auditors

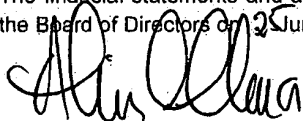
Each director has responsibility for ensuring that:

- as far as himself/herself is aware, there is no relevant audit information of which the Company's auditors are unaware, and that
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Independent auditors

The financial statements on pages 10 to 29 have been audited by Ernst & Young LLP and they have expressed their willingness to continue in office as auditors.

The financial statements and accompanying notes on pages 10 to 29 were approved and authorised for issue by the Board of Directors on 25 June 2018 and signed on its behalf by



Alvin Cheng-Hock Chua  
Director

25 June 2018

## **Bank of China International Holdings Limited**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BANK OF CHINA INTERNATIONAL HOLDINGS LIMITED**

#### **Opinion**

We have audited the financial statements of Bank of China International Holdings Limited for the year ended 31 December 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes 1 to 24 including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements: give a true and fair view of the company's affairs as at 31 December 2017 and of its loss for the year then ended; have been properly prepared in accordance with IFRSs as adopted by the European Union; and have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Use of our report**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### **Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

## **Bank of China International Holdings Limited**

### **INDEPENDENT AUDITORS' REPORT (continued)**

#### **Other information (continued)**

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report have been prepared in accordance with applicable legal requirements.

#### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

#### **Responsibilities of directors**

*As explained more fully in the directors' responsibilities statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.*

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Bank of China International Holdings Limited

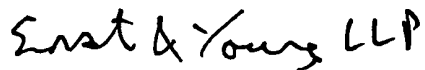
### INDEPENDENT AUDITORS' REPORT (continued)

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Kenneth Eglinton (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London

29 June 2018

**Bank of China International Holdings Limited**

**Statement of comprehensive income for the year ended 31 December 2017**

	Note	2017 HK\$	2016 HK\$
Other income	4	18,855,865	14,440,691
		<b>18,855,865</b>	<b>14,440,691</b>
Staff costs	5	(14,364,620)	(11,307,953)
Other operating expenses	6	(3,537,250)	(2,524,915)
Depreciation	11	(50,479)	-
Foreign exchange gain/(loss)		520,599	(299,550)
<b>Operating expenses</b>		<b>(17,431,750)</b>	<b>(14,132,418)</b>
<b>Operating profit</b>	7	<b>1,424,115</b>	<b>308,273</b>
Impairment of investment in subsidiaries	22	(25,729,616)	(24,995,616)
Interest income	9	806,342	843,569
<b>Net interest income</b>		<b>806,342</b>	<b>843,569</b>
<b>Loss before taxation</b>		<b>(23,499,159)</b>	<b>(23,843,774)</b>
Taxation	10	19,699	149,305
<b>Loss for the financial year</b>		<b>(23,479,460)</b>	<b>(23,694,469)</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive loss for the year</b>		<b>(23,479,460)</b>	<b>(23,694,469)</b>

There were no recognised gains and losses other than the profit or loss for the year.

The accompanying notes are an integral part of these financial statements.

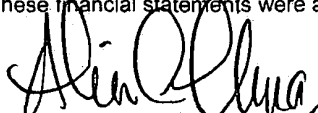
# Bank of China International Holdings Limited

## Statement of financial position as at 31 December 2017

Company number: 3226975

	Note	2017 HK\$	2016 HK\$
<b>Non-current assets</b>			
Fixed assets	11	765,363	-
Investment in subsidiaries	12	255,653,447	211,250,563
Loan to subsidiary	13	7,815,100	7,754,900
Deferred tax	10	169,004	149,305
		<u>264,402,914</u>	<u>219,154,768</u>
<b>Current assets</b>			
Trade and other receivables	14	13,857,664	12,692,771
Cash and balances with banks	15	15,527,983	84,923,819
		<u>29,385,647</u>	<u>97,616,590</u>
<b>Current liabilities</b>			
Trade and other payables	16	3,739,820	3,243,157
		<u>3,739,820</u>	<u>3,243,157</u>
<b>Net current assets</b>		<u>25,645,827</u>	<u>94,373,433</u>
<b>Net assets</b>		<u>290,048,741</u>	<u>313,528,201</u>
<b>Equity</b>			
Share capital	17	340,000,000	340,000,000
Accumulated losses		(49,951,259)	(26,471,799)
<b>Total equity</b>		<u>290,048,741</u>	<u>313,528,201</u>

These financial statements were approved and authorised for issue by the Board of Directors on 25 June 2018.

  
Alvin Cheng-Hock Chua  
Director  
Date 25 June 2018

**Bank of China International Holdings Limited**

**Statement of changes in equity for the year ended 31 December 2017**

	<b>Issued share capital HK\$</b>	<b>Accumulated losses HK\$</b>	<b>Total HK\$</b>
As at 1 January 2017	340,000,000	(26,471,799)	313,528,201
Total comprehensive loss for the year	-	(23,479,460)	(23,479,460)
<b>As at 31 December 2017</b>	<b>340,000,000</b>	<b>(49,951,259)</b>	<b>290,048,741</b>
As at 1 January 2016	340,000,000	(2,777,330)	337,222,670
Total comprehensive loss for the year	-	(23,694,469)	(23,694,469)
<b>As at 31 December 2016</b>	<b>340,000,000</b>	<b>(26,471,799)</b>	<b>313,528,201</b>

**Bank of China International Holdings Limited**

**Statement of cash flows for the year ended 31 December 2017**

	Note	2017 HK\$	2016 HK\$
<b>Cash flows from operating activities</b>			
Cash generated/(used) in operations	18(a)	20,470,596	(31,373,999)
Interest expense		-	-
Net cash inflow /(outflow) from operating activities		<u>20,470,596</u>	<u>(31,373,999)</u>
<b>Cash flows from investing activities</b>			
Additional capital contributions to a subsidiary		(70,132,500)	-
Purchase of plant and equipment		(815,842)	
Interest received		952,982	716,369
Net cash (outflow)/inflow from investing activities		<u>(69,995,360)</u>	<u>716,369</u>
<b>Cash flows from financing activities</b>			
Increase in long term loan to subsidiary		-	(7,754,900)
Net cash outflow from financing activities		<u>-</u>	<u>(7,754,900)</u>
Effects of exchange rate changes		128,928	(133,788)
Net decrease in cash and cash equivalents		<u>(49,395,836)</u>	<u>(38,546,318)</u>
Cash and cash equivalents at the beginning of the year		64,923,819	103,470,137
Cash and cash equivalents at the end of the year	18(b)	<u>15,527,983</u>	<u>64,923,819</u>

## **Bank of China International Holdings Limited**

### **Notes to the financial statements**

#### **1 General Information**

The Company is a limited company incorporated and domiciled in the United Kingdom whose registered office is at 1 Lothbury, London, EC2R 7DB.

The immediate parent company is BOC International Holdings Limited (a company incorporated in Hong Kong) whose parent company is Bank of China Limited (a company incorporated in China). The parent company of Bank of China Limited is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"). Both Huijin and CIC are companies incorporated in China.

The Company acts as an investment holding company for its wholly owned direct subsidiaries, Bank of China International (UK) Limited ("BOCI UK"), BOCI Global Commodities (UK) Limited ("GC UK", together the "UK Operating subsidiaries"), and BOC International (USA) Holdings Inc.. BOC International (USA) Holdings Inc. acts as an investment holding company for its wholly owned direct subsidiaries BOC International (USA) Inc. ("BOCI US") and BOC Commodities & Futures (USA) LLC ("GC US"). The main activity of BOCI UK and BOCI US is equity securities broking for securities traded over the Hong Kong Stock Exchange for institutional clients based in the UK/European and US market respectively. The main activity of GC UK and GC US is commodities broking on the LME and CME respectively typically on behalf of Asian oriented clients. Since April 2017 the principal operational activity of the Company is to provide back office services for the UK Operating Subsidiaries.

#### **2 Accounting policies**

##### **(a) Basis for preparation**

The financial statements of the Company have been prepared in accordance with EU endorsed IFRSs and Companies Act 2006 applicable to companies reporting under IFRSs and have been prepared under the historical cost convention. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The directors have assessed, in the light of current and ongoing uncertain economic conditions, the Company's ability to continue as a going concern. The directors confirm they are satisfied that the Company has adequate resources, supported by BOC International Holdings Limited, to continue in business for the foreseeable future and continue to adopt the "going concern" basis for preparing the financial statements.

For the financial year ended 31 December 2017, as the Company is a wholly owned subsidiary of Bank of China Limited and the consolidated financial statement of Bank of China Limited is publicly available, management has taken exemption from Section 401 of Companies Act 2006 to prepare the consolidated financial statements.

##### **(b) New accounting standards**

- (i) Effective in the financial year beginning 1 January 2017 and relevant to the Company.
  - None
- (ii) Issued but not effective for the financial year beginning 1 January 2017 and not early adopted.
  - IFRS 9, 'Financial instruments', effective for annual periods beginning on or after 1 January 2018. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Company has adopted IFRS 9 on 1 January 2018 and has assessed the impact of IFRS 9 upon adoption is immaterial.
- (iii) Early adoption

No new standards were early adopted as none were applicable to these financial statements.

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**2 Accounting policies (continued)**

**(c) Foreign currency translation**

**Functional and presentation currency**

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The financial statements are presented in Hong Kong Dollars, which is the Company's functional and presentation currency.

**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 statement of comprehensive income.

**(d) Cash and balances with banks**

Cash and balances with banks include cash in hand and deposits held at call and on placement with banks.

Cash and cash equivalents include cash in hand and deposits held at call and on placement with banks with residual maturities of three months or less.

**(e) Share capital**

Ordinary shares are classified as equity.

**(f) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the statement of financial position date.

**(g) Tax and deferred income tax**

Corporation tax payable is provided on taxable profits at the current rate.

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 financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date 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, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**2. Accounting Policies (continued)**

**(h) Provisions**

A provision will be made when: (a) the Company has a present obligation (legal or constructive) arising from a past event; and (b) an outflow of resources is probable; and (c) a reliable estimate can be made of the expected outflow.

Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed. A provision shall be used only for expenditures for which the provision was originally recognised.

**(i) Impairment of investments in subsidiaries**

In accordance with IAS 36 the Company shall assess whether there is any objective evidence that an asset, or cash generating unit, may be impaired and adjust to the recoverable amount being the higher of (a) its fair value less costs to sell and (b) its value in use (note 22).

An assessment is made at each balance sheet date as to whether there is an indication that a given impairment loss has changed.

**(j) Employee benefits**

The Company operates a defined contribution plan called a Group Personal Pension Plan ("GPPP"). The Company pays contributions to privately administered pension insurance plans. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

**(k) Operating leases**

Operating lease rentals are charged to the statement of comprehensive income over the period of the lease. Lease incentives received are amortised to the statement of comprehensive income over the period of the lease and netted off against relevant lease charges.

**(l) Critical accounting estimates and judgements**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur. The disclosures made herein with respect to the accounting estimates are complete and made in accordance with IFRSs as adopted by the European Union.

The amounts recorded for impairment of investments in subsidiaries were derived by evaluating the recoverable amount and comparing these against the investment cost. The recoverable amount is derived from the net book value less amounts to cover reasonable lease commitments and to effect a sale in an orderly market to a willing buyer.

The measurement processes, including related assumptions and models, used to estimate the bonus accrued of HK\$2,436,102 (2016: HK\$1,939,022) have been consistently applied and they appropriately reflect our intent and ability to carry out the estimation of the accrued bonus amount. However, until the bonus is approved by Bank of China Limited it is possible that the bonus amount may change, and that this change might be significant.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. Further details on taxes are disclosed in Note 10.

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**3 Financial risk management**

**Financial risk factors**

The activities of the Company expose it to the financial risks described below. The risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

**(a) Market risk**

**Foreign exchange risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US\$, GBP with HK\$ being the Company's functional currency. Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates relative to the functional currency.

The Company has certain investments in companies whose functional currency is not HK\$, therefore the net assets of those operations and any non-HK\$ operations of the Company are exposed to foreign exchange risk.

**Sensitivity analysis**

Using the balances as at the end of the respective years, a one percent appreciation in the currencies against the HK\$ would have the following effect on the income statement:

<b>Currency (HK\$ equivalent)</b>	<b>2017 HK\$</b>	<b>2016 HK\$</b>
<b>US\$</b>	162,230	158,619
<b>GBP</b>	42,253	47,343

A one percent depreciation would have an equal and opposite effect. All movements in FX rates are reflected in the statement of comprehensive income. The FX impact on equity will be the same.

The original currency values in the below tables were translated into HK\$ at the following rates.

<b>FX rates</b>	<b>2017</b>	<b>2016</b>
<b>US\$</b>	7.8151	7.7549
<b>GBP</b>	10.5371	9.5315

The Company operates its foreign exchange exposure on a matched asset/liability basis for each currency, or at least as close as it can. This applies to all currencies except its functional currency.

**Exposure to interest rate risk**

For the avoidance of doubt the Company does not operate a trading or investment book. No category of the Company's financial position is naturally subject to interest exposure except 'Cash and balances with banks' and 'Loans to subsidiaries'. Currently interest rates across all currencies that the Company has are low – all less than 3.1%.

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**3 Financial risk management (continued)**

**Financial risk factors (continued)**

The tables below show the currency analysis of the net financial assets.

<b>2017 (HK\$ equivalent)</b>	<b>HK\$</b>	<b>US\$</b>	<b>GBP</b>	<b>Total</b>
<b>Non-current assets</b>				
Plant and equipment	765,363	-	-	765,363
Loan to subsidiary	-	7,815,100	-	7,815,100
Deferred tax	169,004	-	-	169,004
	<b>934,367</b>	<b>7,815,100</b>	<b>-</b>	<b>8,749,467</b>
<b>Current assets</b>				
Trade and other receivables	38,286	8,235,493	5,583,885	13,857,664
Cash and balances with banks	13,190,105	-	2,337,878	15,527,983
	<b>13,228,391</b>	<b>8,235,493</b>	<b>7,921,763</b>	<b>29,385,647</b>
<b>Current liabilities</b>				
Trade and other payables	-	-	3,739,820	3,739,820
	<b>-</b>	<b>-</b>	<b>3,739,820</b>	<b>3,739,820</b>
<b>Net financial assets</b>	<b>14,162,758</b>	<b>16,050,593</b>	<b>4,181,943</b>	<b>34,395,294</b>
<b>2016 (HK\$ equivalent)</b>				
	<b>HK\$</b>	<b>US\$</b>	<b>GBP</b>	<b>Total</b>
<b>Non-current assets</b>				
Loan to subsidiary	-	7,754,900	-	7,754,900
Deferred tax	149,305	-	-	149,305
	<b>149,305</b>	<b>7,754,900</b>	<b>-</b>	<b>7,904,205</b>
<b>Current assets</b>				
Trade and other receivables	182,409	7,959,014	4,551,348	12,692,771
Cash and balances with banks	83,699,219	-	1,224,600	84,923,819
	<b>83,881,628</b>	<b>7,959,014</b>	<b>5,775,948</b>	<b>97,616,590</b>
<b>Current liabilities</b>				
Trade and other payables	2,152,338	-	1,090,819	3,243,157
	<b>2,152,338</b>	<b>-</b>	<b>1,090,819</b>	<b>3,243,157</b>
<b>Net financial assets</b>	<b>81,878,595</b>	<b>15,713,914</b>	<b>4,685,129</b>	<b>102,277,638</b>

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**3 Financial risk management (continued)**

**Financial risk factors (continued)**

(b) Credit risk

The Company has credit risk in maintaining deposit relationships with banks (Hong Kong Shanghai Banking Corporation ("HSBC") HK\$1,235,283 (2016: HK\$748,023) and Bank of China International Limited HK\$14,292,700 (2016: HK\$84,175,796)). The Company's maximum exposure to credit risk relates to its major classes of financial assets, which is cash and balances with banks of HK\$15,527,983 (2016: HK\$84,923,819) and trade and other receivables balances of HK\$13,857,664 (2016: HK\$12,692,771). None of the financial assets were past due nor impaired; and are all of investment grade. The Company does not hold any collateral or other credit enhancements on any of its assets.

(c) Liquidity risk

As can be seen from the maturity profile table below much of the cash is held at short notice and no maturities are longer than six months. The Company's treasury policy requires the matching of maturities of liabilities with an equal value and maturity of asset (with the restriction that the maximum maturity of any 'cash' asset is no longer than six months).

The maturity profile of financial assets and liabilities are summarised as follows

2017 HK\$	Repayable on demand	Repayable within 3 months or less	Repayable after 3 months but within 1 year	Repayable after 1 year	Total
Loan to subsidiary	-	-	-	7,815,100	7,815,100
Cash and balances with banks	1,235,283	14,292,700	-	-	15,527,983
Trade and other Receivables	-	10,638,772	3,218,892	-	13,857,664
Trade and other payables	-	(841,892)	(2,785,074)	(112,854)	(3,739,820)

Trade and other payables within a year are mainly represented by accruals and amounts payable to HMRC.

2016 HK\$	Repayable on demand	Repayable within 3 months or less	Repayable after 3 months but within 1 year	Repayable after 1 year	Total
Loan to subsidiary	-	-	-	7,754,900	7,754,900
Cash and balances with banks	748,023	64,175,796	20,000,000	-	84,923,819
Trade and other receivables	-	10,132,811	2,559,960	-	12,692,771
Trade and other payables	-	(943,099)	(2,214,731)	(85,327)	(3,243,157)

Trade and other payables within a year are mainly represented by balance with inter group companies and/or accruals.

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**3 Financial risk management (continued)**

**Financial risk factors (continued)**

(d) Operational risk

This is defined as 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 BOCI internal policies. Operational risk does not include credit, market, liquidity and reputation risk. The Company is subject to the BOCI Group's "Operational Risk and Control Assessment Procedure" manual dated 13 February 2007. Various processes will be tested and reviewed each year and updated as required.

(e) Fair value estimation

Due to the majority of non-financial assets and liabilities being with immediate maturity, their book value approximates to their fair value.

(f) Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, or issue new shares.

	2017 HK\$	2016 HK\$
Ordinary shares	340,000,000	340,000,000
Accumulated losses	(49,951,259)	(26,471,799)
<b>Total</b>	<b>290,048,741</b>	<b>313,528,201</b>

**4 Other income**

Other income comprises the charge, inclusive of mark-up, of (a) back office support services provided by the Company to BOCI UK (HK\$6,390,627 2016: HK\$5,098,799) and GC UK (HK\$12,254,701, 2016: HK\$9,190,916) and (b) risk management services to GC US (HK\$210,537, 2016: HK\$150,976).

**5 Staff expenses**

	2017 HK\$	2016 HK\$
Wages	11,035,279	8,344,575
Social security costs	1,473,296	1,088,239
Pension costs (see note 20)	894,288	707,609
Other staff costs	961,757	1,167,530
<b>Total</b>	<b>14,364,620</b>	<b>11,307,953</b>

The monthly average number of persons employed during the year were (2016: from April):

	2017	2016
Back office	13	9
	<b>13</b>	<b>9</b>

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**6 Other operating expenses**

	2017 HK\$	2016 HK\$
Professional services	291,385	532,503
Premises	1,937,701	1,227,319
Information services	-	67,539
Information technology	1,140,351	460,244
Communications	116,203	88,917
Others	51,610	148,393
<b>Total</b>	<b>3,537,250</b>	<b>2,524,915</b>

**7 Operating profit/loss**

Operating profit/loss is stated after charging	2017 HK\$	2016 HK\$
Depreciation of owned assets	50,479	-
Operating lease charges – property*	1,158,272	-
Operating lease charges – others*	-	-
Auditors' remuneration		
- Auditors remuneration for the audit of the Company's statutory financial statements	57,214	60,258

\* The operating leases are in the name of the Company but, other than an amount for own use rent, are charged to the UK subsidiaries.

**8 Directors' remuneration**

All directors of the Company are paid by other BOCI group companies. In relation to the time spent on this Company's board meetings the proportionate remuneration of the directors of the Company who were employed and paid by other BOCI group companies amounted to HK\$58,641 (2016: HK\$23,946).

**9 Interest income**

	2017 HK\$	2016 HK\$
Interest income from a group company	800,833	839,519
Interest income from a non-group company	5,509	4,050
<b>Total</b>	<b>806,342</b>	<b>843,569</b>

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**10 Taxation/Deferred tax**

	2017 HK\$	2016 HK\$
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Current tax:

Arising on profits for the year	-	-
Adjustments in respect of previous year	-	-

Deferred tax (Note 10(b)):

Origination and reversal of temporary differences	(19,699)	(149,305)
Adjustments in respect of previous year	-	-
Impact of change in tax rates	-	-
<b>Total deferred tax</b>	<b>(19,699)</b>	<b>(149,305)</b>

<b>Total tax credit for the year</b>	<b>(19,699)</b>	<b>(149,305)</b>
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The effective tax rate for the year is 0.08% (2016: 0.63%) as compared to the hybrid rate of corporation tax in the UK of 19.25% (2016: 20%) the difference is explained below:

	2017 HK\$	2016 HK\$
Loss before tax	(23,499,159)	(23,843,774)

Corporation tax on loss at the hybrid corporation tax rate in the United Kingdom of 19.25% (2016: 20%).	(4,523,589)	(4,768,755)
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Tax effects of:

Group relief claimed from BOCI UK for no payment	(451,286)	(385,490)
Impairment of subsidiaries (see note 22)	4,952,951	4,999,123
Impact of change in tax rates	2,225	5,817
<b>Total tax credit for the year</b>	<b>(19,699)</b>	<b>(149,305)</b>

The normal rate of corporation tax is 19% for the year beginning 1 April 2017 (20% for 1 April 2016). This rate will fall to 17% for the year beginning 1 April 2020.

	2017 HK\$	2016 HK\$
(b) Deferred tax asset		
<b>At 1 January</b>	<b>149,305</b>	<b>-</b>
Credited to statement of comprehensive income	19,699	149,305
<b>At 31 December</b>	<b>169,004</b>	<b>149,305</b>

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

<b>11 Plant and equipment</b>	<b>Computer hardware</b>	<b>Furniture and fixtures</b>	<b>Total</b>
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
<b>Cost</b>			
At 1 January 2017	-	-	-
Additions	149,062	666,780	815,842
At 31 December 2017	<b>149,062</b>	<b>666,780</b>	<b>815,842</b>
<b>Accumulated depreciation</b>			
At 1 January 2017	-	-	-
Depreciation charge for the year	28,253	22,226	50,479
At 31 December 2017	<b>28,253</b>	<b>22,226</b>	<b>50,479</b>
<b>Net book value</b>			
At 31 December 2017	<b>120,809</b>	<b>644,554</b>	<b>765,363</b>
At 31 December 2016	-	-	-

**12 Investment in subsidiaries**

	<b>2017 HK\$</b>	<b>2016 HK\$</b>
<b>As at 1 January</b>	211,250,563	236,246,179
Additional capital contribution to a subsidiary	70,132,500	-
Impairment of subsidiaries (see note 22)	(25,729,616)	(24,995,616)
<b>As at 31 December</b>	<b>255,653,447</b>	<b>211,250,563</b>

During 2017 the Company made an additional capital contribution to GC UK.

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**12 Investment in subsidiaries (continued)**

The following is a list of direct and indirect subsidiaries as at 31 December 2017.

Name	Place of incorporation	Principal activities	Particulars of issued shares	Interest held
Bank of China International (UK) Limited	United Kingdom	Securities dealing and brokerage	HK\$25,000,000	<sup>1</sup> 100%
BOC International (USA) Holdings Inc.	United States of America	Investment holding company	US\$24,000,000 (HK\$186,329,360 eqv)	<sup>1</sup> 100%
BOC International (USA) Inc.	United States of America	Securities dealing and brokerage	US\$8,500,000 (HK\$66,094,310 eqv)	100%
BOCI Commodities & Futures (USA) LLC	United States of America	Commodities dealing and brokerage	US\$15,000,000 (HK\$116,250,000 eqv)	100%
BOCI Global Commodities (UK) Limited	United Kingdom	Commodities dealing and brokerage	US\$31,000,000 (HK\$240,738,100 eqv)	<sup>1</sup> 100%

<sup>1</sup> Shares held directly by the Company.

**13 Loan to subsidiary**

On 22 August 2016 the Company granted a USD1,000,000 subordinated loan to its indirectly wholly owned subsidiary BOC International (USA) Inc.. The terms are as follows: scheduled maturity 22 August 2019; can be extended; interest rate 3.0922%pa; and interest payable every six months.

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**14 Trade and other receivables**

	2017 HK\$	2016 HK\$
Non trade debtor – group company *	12,268,183	10,519,211
Non trade debtor – non-group company	996,492	1,286,519
Prepayments	557,221	704,632
Interest receivable – group company	35,768	182,409
<b>Total</b>	<b>13,857,664</b>	<b>12,692,771</b>

The fair value of the assets is not materially different from the carrying value. Of the total, 77% (2016: 80%) of the receivables were received within three months of the year end.

\* On 30 October 2016 the Company granted a US\$1,500,000 loan to its wholly owned subsidiary BOC International (USA) Holdings Inc.. The terms are as follows: loans once drawn down have a three month maturity and the interest rate is set as three month LIBOR plus 1.25%. Two such drawdowns have taken place one for US\$600,000 on 15 November 2016 and the other for US\$400,000 on 16 December 2016, total US\$1,000,000 (HK\$7,754,900). During 2017 both loans rolled and are still outstanding as at 31 December 2017. The balance comprises amounts due from BOCI UK of HK\$1,931,746, GC UK of HK\$2,100,944 and GC US of HK\$311,932 (2016: BOCI UK of HK\$1,151,168, GC UK of HK\$1,513,151 and GC US of HK\$99,992).

**15 Cash and balances with banks**

	2017 HK\$	2016 HK\$
Cash at bank and in hand with a non-group company	1,235,283	748,023
Short term placement with a group company-residual maturity less than 3 months	14,292,700	64,175,796
Short term placement with a group company-residual maturity more than 3 months	-	20,000,000
<b>Total</b>	<b>15,527,983</b>	<b>84,923,819</b>

**16 Trade and other payables**

	2017 HK\$	2016 HK\$
Other liability - due to non-group companies	-	1,187
Payable to HMRC	1,070,007	1,090,042
Accruals	2,669,813	2,151,928
<b>Total</b>	<b>3,739,820</b>	<b>3,243,157</b>

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**17 Share capital**

	2017 HK\$	2016 HK\$
<b>Authorised</b>		
800,000,000 (2016: 800,000,000) ordinary shares of HK\$1 (2016: HK\$1 each)	800,000,000	800,000,000
<b>Allotted and fully paid</b>		
340,000,000 (2016: 340,000,000) ordinary shares of HK\$1 (2016: HK\$1 each)	340,000,000	340,000,000

All shares are of the same class, ordinary, and carry equal rights and there are no restrictions on dividends.

**18 Cash generated/(used) in operations**

(a) Reconciliation of loss before taxation to net cash generated/(used) in operating activities.

	2017 HK\$	2016 HK\$
Loss before taxation	(23,499,159)	(23,843,774)
Adjustments for:		
- Impairment (see note 22)	25,729,616	24,995,616
- Depreciation	50,479	-
- Interest income	(806,342)	(843,569)
- Decrease/(increase) in term placement with a group company with residual maturity over three months	20,000,000	(20,000,000)
- Increase in trade and other receivables	(1,311,533)	(11,372,623)
- Increase/(decrease) in trade and other payables	496,663	(443,437)
- Effect of exchange rate movement on operational cash	(189,128)	133,788
<b>Cash generated/(used) in operations</b>	<b>20,470,596</b>	<b>(31,373,999)</b>

(b) Analysis of cash and cash equivalents.

	2017 HK\$	2016 HK\$
Term placement with a group company with residual maturity less than three months	14,292,700	64,175,796
Cash at bank and in hand with a non-group company	1,235,283	748,023
<b>Total</b>	<b>15,527,983</b>	<b>64,923,819</b>

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**19 Commitments**

As of 1 April 2017 a commitment was made by the Company to rent office space from Bank of China Limited this commitment will expire 31 March 2022. As of 1 April 2017 and 15 August 2017 commitments were made to lease photocopiers and they will respectively expire on 31 March 2022 and 14 August 2022. Other than own use of office space, the costs are on-charged to the two UK subsidiaries.

As of 31 December 2016 there were no commitments.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

2017	Less than 1 year HK\$	1-5 years HK\$	Greater than 5 years HK\$	Total HK\$
Office leasehold	3,552,003	11,541,578		15,093,581
Photocopiers	80,208	277,270	-	357,478
	<b>3,632,211</b>	<b>11,818,848</b>	<b>-</b>	<b>15,451,059</b>

**20 Pension costs**

During the year the Company operated a money purchase pension scheme with defined contributions covering all of its employees. Contributions to the scheme are independently administered by insurance companies. The pension cost of HK\$894,288 (2016: HK\$707,609) represents the regular contributions paid by the Company and none are outstanding at the year end. However, included within wages and salaries and outstanding at the year-end are amounts that have been sacrificed from the staff members' bonuses and remitted to the staff as additional pension contributions HK\$460,081 (2016: HK\$393,240).

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**21 Related-party transactions**

The compensation of key management of the Company (which includes: the Back Office Responsible Officer; Financial Controller; Head of Human Resources) is treated as a related party transaction and is shown below.

	2017 HK\$	2016 HK\$
Short term employee benefits (wages, salaries and other staff costs)	4,885,967	3,465,941
Post employment benefits (pension)	365,170	438,199
	<u>5,251,137</u>	<u>3,904,140</u>

The following transactions were carried out with related parties.

Category	2017 HK\$	2016 HK\$	Corresponding Entity
Interest income	363,749	735,391	Bank of China International Limited
	244,146	87,930	BOC International (USA) Inc.
	192,938	16,198	BOC International (USA) Holdings Inc.
Other income	6,390,627	5,098,799	Bank of China International (UK) Limited
	12,254,701	9,190,916	BOCI Global Commodities (UK) Limited
	210,537	150,976	BOCI Commodities & Futures (USA) LLC
Staff expenses	148,331	122,239	Bank of China Limited, London Branch
Occupancy costs	1,883,814	1,223,138	Bank of China Limited, London Branch
Bank charges	116	-	Bank of China Limited, New York Branch
Cash and balances with bank	14,292,700	84,175,796	Bank of China International Limited
Loan to subsidiary	7,815,100	7,754,900	BOC International (USA) Inc.
Trade and other receivables	35,768	182,409	Bank of China International Limited
	2,100,944	1,513,151	BOCI Global Commodities (UK) Limited
	7,834,953	7,771,097	BOC International (USA) Holdings Inc.
	311,932	99,992	BOCI Commodities & Futures (USA) LLC
	88,608	87,925	BOC International (USA) Inc.
	1,931,746	1,047,046	Bank of China International (UK) Limited

**22 Impairment of subsidiaries**

For the 2017 financial statements management decided to make a provision for the impairment of the investment amount of HK\$25,726,616 (comprised BOCI UK: HK\$7,071,047, GC US HK\$18,658,569) (2016 impairment loss HK\$24,995,616 (comprised BOCI UK: HK\$1,755,004, GC US HK\$16,434,882 and Holdings US HK\$6,805,730)).

The impairment amounts were derived by comparing the recoverable amount against the investment cost.

**Bank of China International Holdings Limited**  
**Notes to the financial statements**

**23 Country-by-country reporting**

The below table fulfills the Company's requirements with the Regulations of Article 89 of the Capital Requirements Directive IV (CRD IV) country-by-country reporting (CBCR).

<b>2017</b>					<b>Average full time equivalent staff including temporary staff</b>
<b>Country</b>	<b>Income HK\$</b>	<b>Loss before tax HK\$</b>	<b>Tax paid / (received) HK\$</b>	<b>Subsidy received HK\$</b>	<b>FTE</b>
UK	18,855,865	(23,499,159)	-	-	14
<b>Total</b>	<b>18,855,865</b>	<b>(23,499,159)</b>	<b>-</b>	<b>-</b>	<b>14</b>

<b>2016</b>					<b>Average full time equivalent staff including temporary staff</b>
<b>Country</b>	<b>Income HK\$</b>	<b>Loss before tax HK\$</b>	<b>Tax paid / (received) HK\$</b>	<b>Subsidy received HK\$</b>	<b>FTE</b>
UK	15,284,260	(23,843,774)	-	-	12
<b>Total</b>	<b>15,284,260</b>	<b>(23,843,774)</b>	<b>-</b>	<b>-</b>	<b>12</b>

The Company acts as an investment holding company for its wholly owned direct and indirect subsidiaries and is the back office service provider for its UK Operating Subsidiaries.

**24 Ultimate parent company**

The immediate parent company is BOC International Holdings Limited (a company incorporated in Hong Kong) whose parent company is Bank of China Limited (a company incorporated in China). The parent company of Bank of China Limited is Central Huijin Investment Limited ("Huijin"), a wholly owned subsidiary of China Investment Corporation ("CIC"). Both Huijin and CIC are companies incorporated in China.

The ultimate parent undertaking and controlling party is CIC.

The largest and smallest group which includes the Company, and which prepares publicly available consolidated financial statements is Bank of China Limited. Copies of its consolidated financial statements are publicly available from the Head Office of Bank of China Limited, 1 Fuxingmen Nei Dajie, Beijing, People's Republic of China, 100818.