交銀國際
BOCOM International

交銀國際控股有限公司
BOCOM International Holdings Company Limited

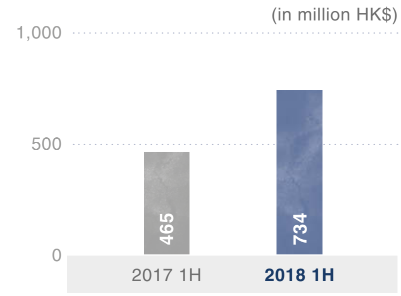
(Incorporated in Hong Kong with limited liability)
Stock code: 3329

Interim Report 2018

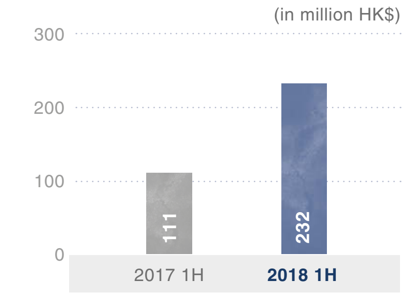
Contents

Financial Highlights

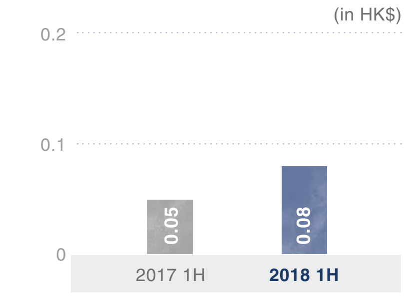
Revenue and other income



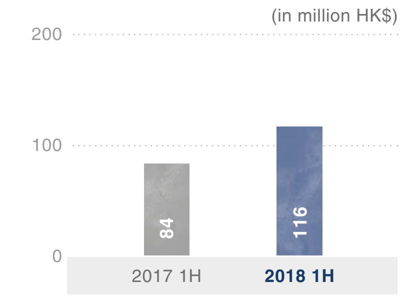
Profit attributable to Shareholders of the Company



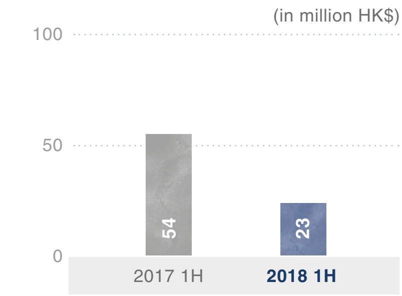
Basic/Diluted earnings per share



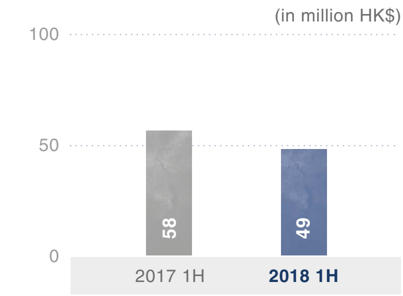
Revenue and other income from brokerage



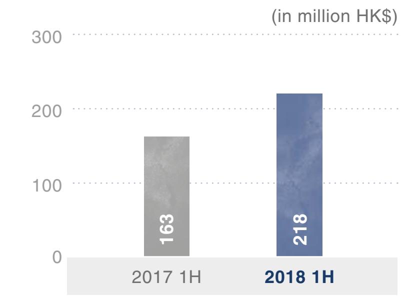
Revenue and other income from corporate finance and underwriting



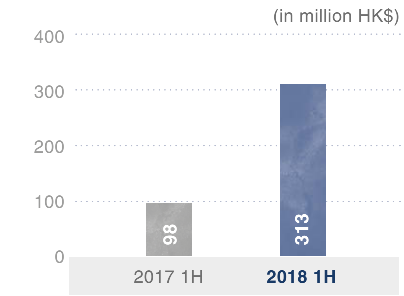
Revenue and other income from asset management and advisory



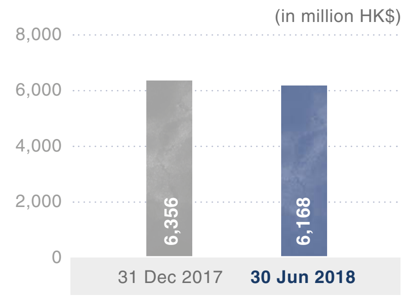
Revenue and other income from margin financing



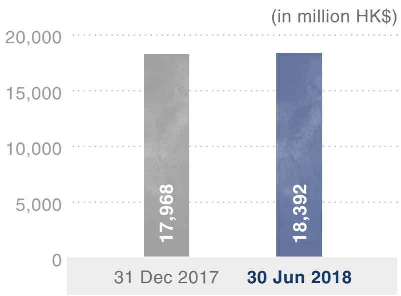
Revenue and other income from investment and loans



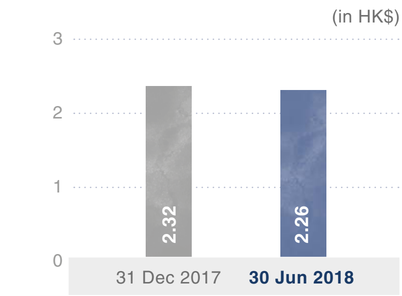
Shareholders' equity – attributable to Shareholders of the Company



Total assets



NAV per share – attributable to Shareholders of the Company



Corporate Information

BOARD OF DIRECTORS

Executive Directors

TAN Yueheng *(Chairman)*
LI Ying *(President)*
CHENG Chuange *(Deputy Chief Executive Officer)*

Non-executive Directors

WANG Yijun
LIN Zhihong
SHOU Fugang

Independent Non-executive Directors

TSE Yung Hoi
MA Ning
LIN Zhijun

BOARD COMMITTEES

Executive Committee

TAN Yueheng *(Chairman)*
LI Ying
CHENG Chuange
XI Xuanhua*
SU Fen*

Audit and Risk Management Committee

LIN Zhijun *(Chairman)*
LIN Zhihong
TSE Yung Hoi

Remuneration Committee

TSE Yung Hoi *(Chairman)*
SHOU Fugang
MA Ning
LIN Zhijun

Nomination Committee

TAN Yueheng *(Chairman)*
WANG Yijun
TSE Yung Hoi
MA Ning
LIN Zhijun

JOINT COMPANY SECRETARIES

YI Li
KWONG Yin Ping, Yvonne

AUTHORISED REPRESENTATIVES

CHENG Chuange
KWONG Yin Ping, Yvonne

REGISTERED OFFICE

9/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong

LEGAL ADVISER

As to Hong Kong laws

Freshfields Bruckhaus Deringer

AUDITOR

PricewaterhouseCoopers

COMPLIANCE ADVISER

Haitong International Capital Limited

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd. Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited
Industrial and Commercial, Bank of China (Asia) Limited
Industrial Bank Co., Ltd., Hong Kong Branch
Agricultural Bank of China, Hong Kong Branch
China CITIC Bank International Limited
OCBC Wing Hang Bank Limited
Dah Sing Bank
China Construction Bank (Asia) Corporation Limited

STOCK CODE

HKEX	3329
Reuters	3329.HK
Bloomberg	3329 HK

COMPANY WEBSITE

www.bocomgroup.com

* Ms. XI Xuanhua and Mr. SU Fen are deputy chief executive officers of the Company.

Management Discussion and Analysis

MARKET REVIEW

In the first half of 2018, global economic recovery continued. Recently, however, the growth momentum has moderated, due to the shifts in monetary policy and trade friction. The US economy remained strong in the first half of 2018, helped by previous tax cuts and fiscal stimulus. The robust employment and rising potential in inflation pressure prompted the Federal Reserve to raise the interest rate twice, while the US dollar strengthened from its weakness earlier this year. In Japan, further monetary easing has failed to allay deflationary pressure. Still-tepid domestic demand and stalled export growth caused Japan's first-quarter GDP growth to turn negative for the first time in two years. In the Eurozone, the economy continued its recovery, while employment and inflation rates started to rise; the European Central Bank intended to maintain an ultra-loose monetary policy until the end of the year.

China's GDP grew 6.8% in the first half of 2018, slowing slightly by 10 basis points year-on-year. Nevertheless, the quality of economic growth continued to improve. The structures of businesses, demand, industries and trade continued to improve and this trend is accelerating. Structural de-leveraging progressed systematically, while broad money growth softened to 8%. The Financial Stability and Development Committee has been established to ensure effective prevention and management of major financial risks. The National Conference on Ecological and Environmental Protection focused on sustainable ecology, to solve ecological and environmental problems and resolutely prevent and combat pollution. In the 2018 Boao Forum for Asia, China announced further market opening-up and proposed four measures to significantly broaden market access, attract foreign investments, expand imports, and strengthen the protection of intellectual property rights. The official inclusion of A shares into the MSCI Index marked an important step for China towards opening up financial markets. In the first half of 2018, cross-border capital flows remained stable. China's foreign exchange reserves stood at roughly the same level as that at the end of 2017. Pulling back after early gains, the Renminbi exchange rate depreciated 1.5% against the US dollar, but performed significantly better than the other emerging market currencies.

After breaking above the 2007 high, the Hang Seng Index closed at 28,955 at the end of the first half of 2018, down 3.2% from the end of last year. Average daily turnover was HK$126.6 billion, 66.5% higher year-on-year. Including the transfer of listing from GEM to Main Board, the total number of new listings jumped to 108 in the first half of 2018, with a 50% increase year-on-year. The Shanghai Securities Composite Index closed at 2,847 at the end of the first half of 2018, down 13.90% from the end of last year. This round of corrections in the Hong Kong and A-share markets both showed pronounced divergence between large-cap and small-cap stocks. The Hang Seng Composite Large-Cap Index and the Mid-Cap Index fell 3.2% and 10.0% respectively in the first half of 2018, compared to a 1.5% gain for the Small-Cap Index. The SSE 50 Index and ChiNext fell 13.3% and 8.3%, respectively, in the first half of 2018.

BUSINESS REVIEW

As one of the earliest licensed securities firms with a PRC background in Hong Kong, we are one of the largest securities firms specializing in securities brokerage and margin financing, corporate finance and underwriting, investment and loans, asset management and advisory businesses. We believe that one of our core competitive strengths is our ability to offer comprehensive and integrated financial services and products that fulfill various investment and wealth management needs of clients. During the Reporting Period, the Group's revenue and other income was HK$734.4 million, representing an increase of 57.8% when compared with HK$465.3 million for the same period last year. The Group's profit was HK$235.4 million, representing an increase of 112.8% when compared with HK$110.6 million for the same period last year. This was attributable by the significant increase in the net investment income, brokerage commission and interest income from margin financing.

Securities Brokerage and Margin Financing

Our securities brokerage business includes executing trades on behalf of clients in stocks, bonds, futures, options and other marketable securities. We execute trades on behalf of clients of various securities products, with primary focus on stocks of companies listed on the Stock Exchange, and other types of securities, including eligible A shares under the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, B shares of listed companies on the PRC stock exchanges, US stocks and bonds as well as futures and other exchange-tradable securities. Futures and options contract products include Hang Seng Index futures and options, mini-Hang Seng Index futures and options, H-shares index futures and options, mini-H-shares index futures and options and stock options.

During the Reporting Period, we have strengthened our groundwork via the launch of two-factor authentication application, deployment of artificial intelligence system in our client service and continuous improvement in our online trading platform. Acknowledging the importance of digital transformation and Big Data, we have formulated 3-Year IT Application System and Infrastructure Strategic Plan in order to maximize the use of our existing resources and create new business opportunities.

In addition, foreseeing the market volatility and the liquidity risk caused by the unexpected capital flows, we have adopted a wide array of measures to improve our margin finance risk management in terms of client screening and stock collateral assessment. For instance, we adopted flexible interest rate policy to attract high quality client by offering preferential interest rate and excluding small market capitalization and illiquid stocks in our margin list.

The Hong Kong stock market was bullish at the beginning of 2018 and the Hang Seng Index hit its record high on 26 January 2018 since 2007, but experienced corrections in the latter part of the first quarter caused by concerns about faster-than-expected rate hike in the US, increased trade tensions between US and the Mainland China and the adjustments of Chinese domestic policies, etc. Against the aforesaid backdrop, we have shifted our focus from stock trading to derivative products, funds and structured products, and the result was encouraging.

For the six months ended 30 June 2018, our commission and fee income from the securities brokerage business was HK$106.0 million, increased by HK$27.6 million or 35.1% as compared to the corresponding period in 2017.

The following table sets forth a breakdown of the commission by product types of our securities brokerage business:

	For the 6 months ended 30 June			
	2018		2017	
	HK$' million	%	HK$' million	%
Hong Kong stock	**86.4**	**81.5**	66.8	85.2
Non-Hong Kong stock	**6.1**	**5.8**	3.6	4.6
Bonds	**5.1**	**4.8**	4.2	5.4
Others	**8.4**	**7.9**	3.8	4.8
	106.0	**100.0**	78.4	100.0

Our margin financing business includes offering collateralized financing relating to securities transactions to retail, corporate and high-net-worth customers.

During the Reporting Period, the number of our margin client accounts continued to grow. The portfolio size was maintained at a high level. Compared with last year, the monthly average loan balance increased and the market value of collateral also increased. As the margin loans remained at high level throughout the Reporting Period, interest income from margin loans for the six months ended 30 June 2018 was HK$218.2 million, increased by HK$55.4 million or 34.0% as compared to the corresponding period in 2017.

The following table sets forth a summary of key operating and financial information of our margin financing business:

	30/6/2018	31/12/2017
Number of margin accounts	**7,814**	6,657
Balance of margin loans (HK$' million)	**6,073.2**	6,416.8
Monthly average balance (HK$' million)	**6,385.8**	4,994.0
Highest month end balance (HK$' million)	**6,640.8**	6,416.8
Lowest month end balance (HK$' million)	**6,177.0**	4,836.8
Margin value (HK$' million) *(note 1)*	**3,803.0**	5,146.9
Market value (HK$' million) *(note 2)*	**22,603.6**	20,047.4

Notes:

1 Margin value refers to the market value of the securities pledged as collateral for margin loans multiplied by a collateral discount ratio for each individual security.

2 Market value refers to the value of the securities pledged as collateral for margin loans at the real-time price of each individual security.

Corporate Finance and Underwriting

We are dedicated to building a comprehensive and cross-border platform for corporate finance and underwriting business. To address various needs of our corporate clients at different stages, we provide advisory services ranging from IPO sponsorship, equity securities underwriting, debt securities underwriting, mergers and acquisitions, pre-IPO financing, and financial advisory.

In the first half of 2018, there were a total of 108 new listings in Hong Kong, including the transfer of listing from GEM to Main Board. The number of new listings has increased by 50% compared with the corresponding period last year. The aggregate amount of funds raised was HK$189.8 billion, slightly increased by 9% compared to the corresponding period last year.

During the Reporting Period, we have completed 1 IPO sole sponsorship project, and 9 equity securities underwriting and debt issuance projects, successfully assisted corporations in raising US$4.85 billion in aggregate, and have also submitted 3 IPO applications as sponsor.

For the six months ended 30 June 2018, our commission and fee income from corporate finance and underwriting services was HK$22.8 million as compared to HK$53.0 million for the corresponding period in 2017, reflecting the cyclical nature of our corporate finance business.

Asset Management and Advisory

We offer a full range of asset management and advisory business, comprising public and private funds, specialized asset management and investment advisory. In addition to Hong Kong entities, we have extended our services to Mainland China via the establishment of BOCOM International (Shanghai) in Shanghai and BOCOM International (Shenzhen) in Qianhai, Shenzhen. The former is engaged in RMB private equity fund management and provides investment advisory services, while the latter serves as our pioneer to grasp the business opportunities in the Guangdong – Hong Kong – Macao Greater Bay Area. The first fund managed by BOCOM International (Shenzhen) completed its private investment fund filing with the Asset Management Association of China on 20 July 2018.

As at 30 June 2018, the total amount of AUM was approximately HK$25,733.4 million, representing a decrease of approximately 5.2% from HK$27,137.9 million as at 31 December 2017. For the six months ended 30 June 2018, asset management and advisory fee income was approximately HK$49.0 million which comprised of management fee income of HK$40.2 million and advisory fee income of HK$8.8 million.

Investment and Loans

Our investment and loans business comprises investment in various equity and debt securities as well as public and private funds, and structured financing and loans to enterprises to meet various financing needs. We aim to achieve a balance between mitigating investment risks and achieving investment returns.

For equity investment, we generally prefer pre-IPO investments in innovative technology companies, biotech companies and other new economy companies which will be eligible for listing either on the Main Board or recently launched New Board in Hong Kong or overseas within 2 or 3 years. Some of our investments are well recognised by the market as unicorns, with active market, growth potential and clear exit plan.

In order to reduce the negative impact on price of bonds and preference shares, we shifted our fixed income portfolio from marketable securities to structured finance in order to mitigate the market risks and strengthen the control of collaterals through tailor-made structures.

For the six months ended 30 June 2018, interest income from loans and advances was HK$43.7 million, representing a substantial increase of approximately 515.5% as compared to HK$7.1 million for the corresponding period in 2017. Proprietary trading income was HK$254.9 million which represented a substantial increase of approximately 182.0% from HK$90.4 million for the corresponding period in 2017.

The table below sets forth our investment position by asset types for our equity and fixed income investment business:

	30/6/2018		31/12/2017	
	HK$' million	%	HK$' million	%
Fixed income securities	**4,747.8**	**60.6**	5,241.0	72.0
Bonds	**2,726.4**	**34.8**	3,119.2	42.9
Preference shares	**1,965.5**	**25.1**	2,062.3	28.3
REIT(s)	**55.9**	**0.7**	59.5	0.8
Equity investments	**1.9**	**0.0**	1.6	0.0
Funds	**3,087.6**	**39.4**	2,036.8	28.0

Research

Our research team has deep and solid understanding of the global financial markets and major industries, as well as a track record in comprehensive analyses of sector- and company-specific fundamentals. The team has earned high reputation among institutional investors in Hong Kong, Mainland China and overseas markets. In the 2017 Asiamoney poll, our research team won 18 awards, including 12 top strategy and economic research awards. As of June 30, 2018, our research team was composed of more than 40 strategy, industry analysts and professional staff in Hong Kong, Beijing and Shanghai, covering macro and around 150 listed companies across various sectors.

In the first half of 2018, our research team further enhanced its research capacity through a series of upgrade and optimization projects, which reinforced its leading position within the industry. The key enhancement projects include the introduction of integrated research management system, which would further enhance the efficiency of our research report production; the strengthening of close collaboration with media in Hong Kong and Mainland China, essentially achieving full coverage in mainstream media for our research reports, thereby promoting the overall image of the Company.

FINANCIAL REVIEW

Financial performance

For the six months ended 30 June 2018, the Group's total revenue and other income was approximately HK$734.4 million, representing an increase of approximately 57.8% over HK$465.3 million for the corresponding period in 2017.

The following table sets out the breakdown of total revenue and other income by segments:

	For the six months ended 30 June			
	2018		2017	
	HK$'million	%	HK$'million	%
Brokerage	**115.8**	**15.8**	84.4	18.1
Corporate finance and underwriting	**22.8**	**3.1**	54.1	11.6
Asset management and advisory	**49.0**	**6.7**	58.0	12.5
Margin financing	**218.2**	**29.7**	162.8	35.0
Investment and loans	**313.1**	**42.6**	97.5	21.0
Others	**15.5**	**2.1**	8.5	1.8
Total	**734.4**	**100.0**	465.3	100.0

The Group's profit for the six months ended 30 June 2018 was approximately HK$235.4 million, representing an increase of approximately 112.8% over HK$110.6 million for the corresponding period in 2017.

Operating expenses

Operating expenses and finance costs for the six months ended 30 June 2018 amounted to HK$507.9 million (2017: HK$332.2 million), an analysis of which is listed below:

	For the six months ended 30 June			
	2018		2017	
	HK$'million	%	HK$'million	%
Commission and brokerage expenses	**34.4**	**6.8**	31.4	9.4
Finance costs	**165.3**	**32.5**	57.4	17.3
Staff costs	**139.0**	**27.4**	112.2	33.8
Depreciation	**4.1**	**0.8**	3.7	1.1
Other operating expenses	**161.2**	**31.7**	116.5	35.1
Impairment losses	**3.9**	**0.8**	11.0	3.3
Total	**507.9**	**100.0**	332.2	100.0

Due to an increase in brokerage revenue, commission and brokerage expenses also increased accordingly.

Finance costs increased by 188.0% due to the upward adjustment of the base rate and the expansion of the investment and loan business.

Staff costs increased by 23.9% as a result of investment in human resources.

Depreciation was relatively stable.

Other operating expenses increased by 38.4% mainly due to HK$34 million guarantee fee paid to funds.

Impairment losses represented the movement of provision under the implementation of HKFRS 9 Financial Instruments.

Liquidity, Financial Resources and Gearing Ratio

The Group's cash and bank balances as at 30 June 2018 increased by HK$247.3 million to HK$2,117.6 million (31 December 2017: HK$1,870.3 million).

The Group's net current asset increased by HK$5,110.7 million to approximately HK$6,389.2 million as at 30 June 2018 from HK$1,278.5 million as at 31 December 2017. The current ratio, being the ratio of current assets to current liabilities, was approximately 1.9 times as at 30 June 2018 (31 December 2017: 1.1 times).

As at 30 June 2018, the Group had borrowings of HK$10,403.5 million (31 December 2017: HK$10,068.2 million) while the subordinated loans from the ultimate holding company amounted to HK$1,000.0 million (31 December 2017: HK$1,000.0 million).

As at 30 June 2018, the Group's gearing ratio was 184.6% (31 December 2017: 174.0%), as calculated by dividing total borrowings by total equity.

The Directors are of the view that the Group has maintained adequate liquidity for business operations and any investment opportunities that may arise in the near future.

Capital Structure

The Group finances its working capital requirements by cash generated from business operations and bank loans (including loans from BOCOM). Our capital structure consists of share capital and reserves.

Principal Risks

The Group faces a number of principal risks and uncertainties that if not properly managed could create an exposure for the Group. Thorough risk assessment and mitigation help to ensure these risks are well managed and governed effectively. The Group focuses on addressing the following principal risks:

Currency Risk

The Group has certain transactions denominated in foreign currencies and is therefore exposed to exchange rate fluctuations. Our currency risk exposure mainly lies in RMB and USD at present. The exchange rate of HKD against USD is relatively stable under the current pegged rate system in Hong Kong.

Interest Rate Risk

Our interest rate risk relates primarily to margin loans to customers, loans and subordinated loans and investments in debt securities. The Group has set up asset portfolio management system and monitored risk exposure regularly to mitigate the interest rate risk by diversification of assets and quantifying market exposure in duration terms.

Credit Risk

Our credit risk arises from the possibility that our clients or counterparties for a transaction may default. The Group has a range of credit policies and practices in place to mitigate such risk and ensure such risk is monitored on an ongoing basis.

Liquidity Risk

Our businesses rely on sufficient funds to pay due debts, perform payment obligations and satisfy the capital requirements. The Group has implemented internal measures to monitor the liquidity risk and the foreseeable funding requirements to ensure certain subsidiaries of the Company that are regulated under the SFO to continuously comply with the relevant rules and regulations.

Operational Risk

Our operation risk arises from direct or indirect financial loss resulting from incomplete or irregular internal processes, personnel mistakes, information technology system failures, or external events. The Group has implemented a range of internal control and other measures and plans to mitigate such risk.

Market Risk

Our market risk includes currency risk, interest rate risk and other price risk. The Group has implemented measures to manage and monitor such risks in order to keep potential losses within an acceptable level and maximize returns.

Material Acquisitions and Disposals

During the Reporting Period, there was no material acquisition or disposal of subsidiaries, associated companies or joint ventures of the Group.

Significant Investments Held

During the Reporting Period, there was no significant investment held by the Group.

Charges on Group Assets

As at 30 June 2018, preference shares with market value of HK$426.7 million, under the financial assets at fair value through other comprehensive income, were pledged to a bank to secure a loan for the acquisition of part of such preference shares by Preferred Investment Management Limited, a subsidiary of the Company (31 December 2017: HK$438.8 million).

Capital Commitments

As at 30 June 2018, the Group had no significant capital commitment.

Employees and Remuneration Policies

As at 30 June 2018, the Group had a total of 325 employees. Total staff costs amounted to approximately HK$139.0 million for the six months ended 30 June 2018.

The Group continuously refines its remuneration and incentive policies to boost business development and ensure employees receive competitive remuneration packages. The remuneration of the Directors are determined with reference to their duties, responsibilities, experience and to the prevailing market conditions. Mandatory provident fund scheme and insurance packages have been provided to employees in accordance with local laws and regulations. We conduct performance evaluations of our employees annually to provide feedback on their performance.

We systematically provide comprehensive and diverse trainings to improve the professional skills of our employees. Employees are subsidised for participating in training courses which keep them abreast of the latest industry and technical developments.

Contingent liabilities

As at 30 June 2018, the Group had certain contingent liabilities arising in the ordinary course of business. Please see Note 26 to the condensed consolidated financial statements of this interim report for details.

Use of Proceeds

The net proceeds from the Listing in 2017 after deducting underwriting fees and commissions and expenses in connection with the Listing, were approximately HK$1,879.2 million. As at 30 June 2018, the Company utilised approximately 85.9% of the net proceeds for the purposes as set out in the section headed "Future Plans and Use of Proceeds – Use of proceeds" in the Prospectus. The unutilised amount is expected to be utilised within 5 years.

An analysis of the application/intended application and utilisation of the net proceeds from the Listing as at 30 June 2018 is set out below:

Application/Intended application	Net proceeds from the Listing (HK$'million)	Utilised amount as at 31/12/2017 (HK$'million)	Utilised amount during the Reporting Period (HK$'million)	Utilised amount as at 30/6/2018 (HK$'million)	Unutilised amount (HK$'million)
1. Expand margin financing business	845.7	845.7	–	845.7	–
2. Expand asset management and advisory business	281.9	109.7	172.2	281.9	–
3. Expand investment and loans business	187.9	187.9	–	187.9	–
4. Develop IT infrastructure and internal control systems	187.9	3.3	20.4	23.7	164.2
5. Attract and retain talent as well as optimizing human resources structure	187.9	33.5	53.6	87.1	100.8
6. Working capital and general corporate purposes	187.9	187.9	–	187.9	–
Total	1,879.2	1,368.0	246.2	1,614.2	265.0

MARKET OUTLOOK

Looking ahead, the main risks overshadowing the global economy stem from the trade protectionism initiated by the US. Global economic recovery and the monetary policy of major central banks are set to diverge even further. With its tax cut and infrastructure construction plan forging ahead, the US is likely to maintain strong economic growth, with core inflation poised to further exceed the policy target. The market anticipates that the Federal Reserve may hike interest rates twice in the second half. For the Eurozone and Japan, cyclical recovery is expected to continue in the second half of 2018, but likely at a slower pace due to US trade strife. The European Central Bank will bring an end to its quantitative easing at the end of 2018, while keeping the current interest rate unchanged until at least the summer of 2019. The Bank of Japan sees little likelihood that the inflation rate could rebound to its policy target, and will adhere to its ultra-loose monetary policy with unchanged interest rates. In addition, with ongoing political risks in Europe and geopolitical tensions in the Middle East, the financial stability in emerging markets will remain under test amidst global inflationary pressure and the Federal Reserve's rate hike cycle.

Apart from the repercussions of China-US trade frictions, the Chinese economy is entering the late stage of its three-year economic cycle. Growth is bound to slow. At this stage of the economic cycle, the central bank tends to retouch its balance sheet growth, as it cuts reserve requirement ratio or interest rates to counter macro-economic risks. As such, the reserve requirement cut in the first half of 2018 should be seen as a step by the central bank to reduce its balance sheet. Given the outstanding medium-term lending facilities due this year, still-low reserves among medium and small banks, and a potential rebound in bank loan demand upon a real estate investment recovery, there should be at least one more cut in the reserve requirement ratio in the second half. However, monetary policy fine-tuning, at its initial stage, is unlikely to reverse the course of economic slowdown. Real estate construction should pick up in the second half, offsetting the moderation in the current unsustainable pace of land banking. As local government debt issuance resumes, infrastructure fixed asset investment should gather pace, too. In the second half of this year, China's economic growth should hold steady in general amid slight moderation. While credit growth is slowing in the country, shifts in the social financing mix reflect the pressure of tightening credit. Market risk persists after liquidity is tightened due to financial deleveraging and implementation of new rules on asset management.

To cope with the uncertainties in global economic environment and the increasing market risks, the management of the Group will continue to adopt prudent risk management measures and review business strategies regularly. The management remains optimistic about the business development and overall performance of the Group throughout the year. We will continue to keep a forward-looking vision and make investment with good return in accordance with strict risk ratings and future growth. We aim to look for investment opportunities that are appropriate and that can provide stable and high returns in the volatile market.

In May 2018, the Group successfully completed a syndicated term loan of HK$5.0 billion equivalent. This arrangement has improved our funding structure and ensured sufficient liquidity for business expansion. Financing ability and corporate governance will benefit the Group's further development. The Group actively participates in the construction of the "Belt and Road" and will continue to develop securities brokerage, margin financing, corporate finance and underwriting, asset management, advisory and relevant businesses, so as to enhance the Company's value and create better returns for our Shareholders.

Corporate Governance and Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2018, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

Long Positions in Shares of the Company

Name of Director/Chief Executive	Capacity	Number of Shares held	Approximate percentage to the total number of issued Shares of the Company (%)
TAN Yueheng	Beneficial owner	1,500,000	0.05
XI Xuanhua	Beneficial owner	500,000	0.02

Long Positions in shares of associated corporation of the Company – BOCOM

Name of Director	Capacity	Class of shares held in the associated corporation	Number of shares held	Approximate percentage to the total number of relevant class of issued shares of the associated corporation (%)	Approximate percentage to the total number of issued shares of the associated corporation (%)
TAN Yueheng	Beneficial owner	H shares	100,000	0.00	0.00
		A shares	100,000	0.00	0.00
LI Ying	Beneficial owner	H shares	173,000	0.00	0.00
CHENG Chuange	Beneficial owner	A shares	40,000	0.00	0.00
SHOU Fugang	Beneficial owner	H shares	20,000	0.00	0.00
		A shares	40,000	0.00	0.00

Save as disclosed above, as at 30 June 2018, none of the Directors or Chief Executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For the six months ended 30 June 2018, none of the Company or any of its subsidiaries had signed any agreements to enable the Directors to acquire benefits by means of acquisition of shares or debt securities (including debentures) of the Company or any other body corporate and none of the Directors, his/her spouses or children under the age of 18 had any rights to subscribe for securities of the Company, or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the interests and short positions of those persons (other than the Directors or Chief Executives of the Company) in the Shares and underlying Shares of the Company as required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or to the best of Directors' knowledge, were as follows:

Name of shareholder	Capacity	Long Position/ Short Position	Total Number of Shares held	Approximate percentage of the total number of issued Shares of the Company (%)
BOCOM	Interest in a controlled corporation, beneficiary of trust[1]	Long Position	2,000,000,000	73.14
BOCOM Nominee	Interest in a controlled corporation, Trustee (other than bare trustee)[2]	Long Position	2,000,000,000	73.14

Notes:

(1) Expectation Investment is an indirect subsidiary of BOCOM and is the beneficial owner of 500,000 Shares. BOCOM is deemed to be interested in an aggregate of 2,000,000,000 Shares which BOCOM Nominee is interested in as trustee (other than a bare trustee) and which Expectation Investment is interested in as beneficial owner.

(2) BOCOM Nominee is a subsidiary of BOCOM and (a) holds 1,999,500,000 Shares on trust for BOCOM and (b) controls 50% of voting rights of Expectation Investment which is the beneficial owner of 500,000 Shares.

Save as disclosed above, as at 30 June 2018, the Company is not aware of any other persons, other than the Directors and Chief Executives of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had interests or short positions in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code of the Listing Rules as its own code of corporate governance. During the period ended 30 June 2018, with the exception of code provision A.2.1 of the Corporate Governance Code, the Company has complied with all the code provisions set out in the Corporate Governance Code.

Code Provision A.2.1 of the Corporate Governance Code states that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. TAN Yueheng, the Chairman of the Company, also assumes the responsibilities of Chief Executive of the Company. Mr. TAN has assumed the responsibilities of the Chief Executive since 2007. The Board believes that Mr. TAN is a suitable candidate to, in effect, assume the responsibilities of the Chief Executive of the Company and the above arrangement can help improve the efficiency of the decision-making and execution process of the Company. The Company has put in place an appropriate check-and-balance mechanism through the Board and the Independent Non-executive Directors. In light of the above, the Board considers that the deviation from Code Provision A.2.1 of the Corporate Governance Code is appropriate in the circumstances of the Company.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors confirmed that they complied with the Model Code throughout the six months ended 30 June 2018 in response to specific enquiry made by the Company.

APPOINTMENT OF A DEPUTY CHIEF EXECUTIVE OFFICER AND A MEMBER OF EXECUTIVE COMMITTEE

Mr. SU Fen has been appointed as a Deputy Chief Executive Officer of the Company and a member of the Executive Committee with effect from 11 July 2018.

CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Pursuant to Rule 13.51(B)(1) of the Listing Rules, the changes in information of Directors and Chief Executives are set out below:

Mr. LI Ying, an Executive Director and President, was appointed as a director of BOCOM International Asset Management Limited, a wholly-owned subsidiary of the Company, with effect from 11 June 2018.

Mr. WANG Yijun, a Non-executive Director, was appointed as a director of China BOCOM Insurance Company Limited with effect from 15 June 2018.

Mr. TSE Yong Hoi, an Independent Non-executive Director, was appointed as independent non-executive directors of Vico International Holdings Limited (stock code: 1621), China Tower Corporation Limited (stock code: 788) and Well Link Bank with effect from 16 January 2018, 3 May 2018 and 30 June 2018 respectively.

Mr. LIN Zhijun, an Independent Non-executive Director, served as vice president of the Macau University of Science and Technology with effect from 1 March 2018.

Mr. SU Fen, a Deputy Chief Executive Officer, was appointed as director of BOCOM International (Shenzhen) with effect from 12 July 2018.

REVIEW OF INTERIM RESULTS

The Audit and Risk Management Committee has reviewed with management and the Company's auditor, PricewaterhouseCoopers, the accounting principles and practices adopted by the Group and discussed the financial reporting matters including the review of the Company's Interim Report for the six months ended 30 June 2018.

The unaudited condensed consolidated interim financial information for the Reporting Period has been reviewed by the Company's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

INTERIM DIVIDEND

No dividend was paid or declared by the Company for the six months ended 30 June 2018 (2017 1H: Nil).

Report on Review of Interim Financial Information

TO THE BOARD OF DIRECTORS OF BOCOM INTERNATIONAL HOLDINGS COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 21 to 70, which comprises the condensed consolidated statement of financial position of BOCOM International Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2018 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 August 2018

Condensed Consolidated Income Statement

		Six months ended	
		30/6/2018 (Unaudited)	30/6/2017 (Unaudited)
	Notes	HK$'000	HK$'000
Revenue	*7*	**694,554**	449,733
Other income	*7*	**39,799**	15,544
Revenue and other income		**734,353**	465,277
Commission and brokerage expenses		**(34,383)**	(31,359)
Finance costs	*9*	**(165,276)**	(57,403)
Staff costs	*9*	**(138,967)**	(112,194)
Depreciation	*9*	**(4,110)**	(3,753)
Other operating expenses		**(161,270)**	(116,547)
Impairment losses	*8*	**(3,909)**	(10,966)
Total expenses		**(507,915)**	(332,222)
Operating profit		**226,438**	133,055
Share of results of associates	*14*	**(448)**	(6,425)
Share of results of joint ventures		**22**	5
Gain on disposal of an associate	*14*	**15,380**	–
Profit before taxation	*9*	**241,392**	126,635
Income tax expense	*10*	**(5,978)**	(16,070)
Profit for the period		**235,414**	110,565
Attributable to:			
Shareholders of the Company		**231,863**	110,976
Non-controlling interests		**3,551**	(411)
		235,414	110,565
Earnings per share attributable to shareholders of the Company for the period – Basic/Diluted (in HKD per share)	*12*	**0.08**	0.05

Condensed Consolidated Statement of Comprehensive Income

	Six months ended	
	30/6/2018 (Unaudited) HK$'000	30/6/2017 (Unaudited) HK$'000
Profit for the period	**235,414**	110,565
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to profit or loss		
Changes in fair value of equity investments at fair value through other comprehensive income	**(39,908)**	–
Items that may be reclassified subsequently to profit or loss		
Changes in fair value of available-for-sale investments	**–**	53,095
Changes in fair value of debt investments at fair value through other comprehensive income	**(88,807)**	–
Amounts reclassified to profit or loss upon disposal of available-for-sale investments	**–**	(5,567)
Amounts reclassified to profit or loss upon disposal of debt investments at fair value through other comprehensive income	**1,246**	–
Other comprehensive (loss)/income, net of tax	**(127,469)**	47,528
Total comprehensive income	**107,945**	158,093
Attributable to:		
Shareholders of the Company	**104,394**	158,504
Non-controlling interests	**3,551**	(411)
	107,945	158,093

Condensed Consolidated Statement of Financial Position

	Notes	30/6/2018 (Unaudited) HK$'000	31/12/2017 (Audited) HK$'000
Assets			
Non-current Assets			
Property and equipment		**21,748**	20,983
Intangible assets		**3,196**	3,196
Interest in associates	14	**213,700**	103,714
Interest in joint ventures		**2,997**	1,782
Other assets		**60,161**	42,042
Available-for-sale investments	13	**–**	4,524,786
Financial assets at fair value through other comprehensive income	13	**2,989,946**	–
Loans and advances	15	**1,200,451**	384,572
Deferred tax assets		**19,015**	656
Total non-current assets		**4,511,214**	5,081,731
Current Assets			
Loans and advances	15	**33,303**	1,093,548
Tax recoverable		**10,987**	10,987
Accounts receivable	16	**614,024**	560,990
Other receivables and prepayments	17	**248,421**	172,126
Margin loans to customers	18	**6,073,217**	6,416,790
Amounts due from related parties		**2,514**	3,392
Amounts due from fellow subsidiaries		**39**	–
Financial assets at fair value through profit or loss	13	**4,780,274**	2,757,659
Derivative financial assets	13	**20**	831
Cash and bank balances	19	**2,117,621**	1,870,268
Total current assets		**13,880,420**	12,886,591
Total assets		**18,391,634**	17,968,322

Condensed Consolidated Statement of Financial Position (Continued)

	Notes	30/6/2018 (Unaudited) HK$'000	31/12/2017 (Audited) HK$'000
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	23	**3,942,216**	3,942,216
Retained earnings		**2,350,311**	2,399,314
Revaluation reserve		**(124,230)**	14,508
Total equity attributable to shareholders of the Company		**6,168,297**	6,356,038
Non-controlling interests		**7,628**	4,077
Total equity		**6,175,925**	6,360,115
Liabilities			
Non-current Liabilities			
Borrowings	20	**4,724,503**	–
Deferred tax liabilities		**–**	130
Total non-current liabilities		**4,724,503**	130
Current Liabilities			
Borrowings	20	**5,679,024**	10,068,242
Subordinated loans from the ultimate holding company	20	**1,000,000**	1,000,000
Tax payable		**16,896**	5,783
Provision for staff costs		**7,293**	53,710
Other payables and accrued expenses		**68,090**	38,145
Accounts payable	21	**458,363**	390,668
Dividend payable	11	**218,751**	–
Deferred revenue	22	**21,374**	25,788
Amount due to the ultimate holding company		**6,146**	6,080
Financial liabilities at fair value through profit or loss	13	**15,249**	18,858
Derivative financial liabilities	13	**20**	803
Total current liabilities		**7,491,206**	11,608,077
Total liabilities		**12,215,709**	11,608,207
Total equity and liabilities		**18,391,634**	17,968,322
Net current assets		**6,389,214**	1,278,514
Total assets less current liabilities		**10,900,428**	6,360,245

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company					
	Share capital HK$'000	Retained earnings HK$'000	Revaluation reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017 (Audited)	**3,942,216**	**2,399,314**	**14,508**	**6,356,038**	**4,077**	**6,360,115**
Impact on initial application of HKFRS 9	**–**	**(62,115)**	**(11,269)**	**(73,384)**	**–**	**(73,384)**
Adjusted balance at 1 January 2018	**3,942,216**	**2,337,199**	**3,239**	**6,282,654**	**4,077**	**6,286,731**
Profit for the period	**–**	**231,863**	**–**	**231,863**	**3,551**	**235,414**
Other comprehensive income for the period	**–**	**–**	**(127,469)**	**(127,469)**	**–**	**(127,469)**
Total comprehensive income for the period	**–**	**231,863**	**(127,469)**	**104,394**	**3,551**	**107,945**
Final Dividend for 2017 (Note 11)	**–**	**(218,751)**	**–**	**(218,751)**	**–**	**(218,751)**
At 30 June 2018 (Unaudited)	**3,942,216**	**2,350,311**	**(124,230)**	**6,168,297**	**7,628**	**6,175,925**
At 1 January 2017 (Audited)	2,000,000	1,995,407	(13,761)	3,981,646	4,472	3,986,118
Profit for the period	–	110,976	–	110,976	(411)	110,565
Other comprehensive income for the period	–	–	47,528	47,528	–	47,528
Total comprehensive income for the period	–	110,976	47,528	158,504	(411)	158,093
Issuance of ordinary shares	1,921,050	–	–	1,921,050	–	1,921,050
At 30 June 2017 (Unaudited)	3,921,050	2,106,383	33,767	6,061,200	4,061	6,065,261

Condensed Consolidated Statement of Cash Flows

	Six months ended	
	30/6/2018 (Unaudited) HK$'000	30/6/2017 (Unaudited) HK$'000
Operating activities		
Profit before taxation	**241,392**	126,635
Adjustments for:		
Dividend income	**(38,577)**	(570)
Interest income from loans or clients	**(261,845)**	(169,895)
Bond interest income	**(103,137)**	(57,674)
Other interest income	**(13,752)**	(7,202)
Finance costs	**165,276**	57,403
Depreciation	**4,110**	3,753
Loss on disposal of property and equipment	**792**	–
Impairment losses	**3,909**	10,966
Net unrealised gain on financial assets at fair value through profit or loss	**(125,616)**	(26,923)
Net realised gain on available-for-sale investments	**–**	(5,567)
Net realised loss on debt investments at fair value through other comprehensive income	**1,246**	–
Foreign exchange loss	**12,381**	6,418
Share of results of associates	**448**	6,425
Share of results of joint ventures	**(22)**	(5)
Gain on disposal of an associate	**(15,380)**	–
Operating cash flows before movements in working capital	**(128,775)**	(56,236)
Increase in other assets	**(18,119)**	(2,668)
Increase in financial assets at fair value through profit or loss	**(921,999)**	(22,997)
(Decrease)/increase in financial liabilities at fair value through profit or Loss	**(3,609)**	2,772
Decrease/(increase) in derivative financial assets	**811**	(5,831)
(Decrease)/increase in derivative financial liabilities	**(783)**	5,725
Increase in accounts receivable	**(65,903)**	(408,341)
Decrease in margin loans to customers	**267,850**	264,772
Decrease/(increase) in loans and advances	**241,644**	(46,464)
Decrease in amounts due from related parties	**878**	13,867
Increase in amount due from fellow subsidiaries	**(39)**	–
(Increase)/decrease in other receivables and prepayments	**(773)**	30,809
Increase in accounts payable	**67,695**	537,268
Decrease in deferred revenue	**(4,414)**	(278)
Increase/(decrease) in amount due to the ultimate holding company	**66**	(391)
Decrease in provision for staff costs	**(46,417)**	(56,605)
Increase in other payables and accrued expenses	**38,551**	39,100
Net cash (used in)/generated from operations	**(573,336)**	294,502

Condensed Consolidated Statement of Cash Flows (Continued)

	Six months ended	
	30/6/2018 (Unaudited) HK$'000	30/6/2017 (Unaudited) HK$'000
Income tax paid	–	(21,029)
Interest received from loans or clients	**250,219**	169,574
Other interest income received	**13,603**	6,762
Interest expenses paid	**(173,882)**	(55,658)
Net cash (used in)/generated from operating activities	**(483,396)**	394,151
Investing activities		
Dividend received	**38,577**	570
Bond interest income received	**39,001**	27,939
Purchase of property and equipment	**(5,666)**	(4,219)
Purchase of associates	**(213,816)**	–
Proceeds on disposal of an associate	**111,671**	–
Distribution from an associate	**7,091**	–
Purchase of available-for-sale investments	–	(1,187,816)
Purchase of financial assets at fair value through other comprehensive income	**(282,639)**	–
Proceeds on disposal of available-for-sale investments	–	120,093
Proceeds on disposal of financial assets at fair value through other comprehensive income	**722,512**	–
Net cash generated from/(used in) investing activities	**416,731**	(1,043,433)
Financing activities		
Net drawdown/(repayment) of bank loans and other borrowings	**335,285**	(1,436,378)
Net proceeds from issuance of ordinary shares	–	1,921,050
Net cash generated from financing activities	**335,285**	484,672
Net increase/(decrease) in cash and cash equivalents	**268,620**	(164,610)
Cash and cash equivalents at 1 January	**1,245,628**	502,439
Effect of exchange rate changes on cash and cash equivalents	**(21,267)**	(17,351)
Cash and cash equivalents at 30 June	**1,492,981**	320,478

Notes to the Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

BOCOM International Holdings Company Limited (the "Company") is a company incorporated in Hong Kong. The address of its registered office is 9/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong.

The principal activity of the Company is investment holding. The Group is principally engaged in securities brokerage, margin financing, corporate finance and underwriting, investment and loans and asset management and advisory businesses. The regulated activities carried out by the Company's licensed subsidiaries include dealing in securities and futures and advising on securities and futures contracts, providing securities margin financing, advising on corporate finance and providing asset management services.

The parent and ultimate holding company is Bank of Communications Co., Ltd., a company incorporated in the People's Republic of China ("PRC") and listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company, unless otherwise stated.

The financial information relating to the year ended 31 December 2017, that is included in the condensed consolidated interim report for the six months ended 30 June 2018 as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap. 622).

2. BASIS OF PREPARATION

This condensed consolidated interim financial statements for the six months ended 30 June 2018 has been prepared in accordance with HKAS 34, 'Interim financial reporting' and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with HKFRSs.

Notes to the Condensed Consolidated Financial Statements (Continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of new and amended standards as set out below:

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- HKFRS 9 Financial Instruments, and
- HKFRS 15 Revenue from Contracts with Customers.

(b) Impact of standards issued but not yet applied by the Group

(i) HKFRS 16 Leases

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$134,641 thousand. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES

The Group has initially applied HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers with effect from 1 January 2018 and has taken transitional provisions and methods not to restate comparative information for prior periods. The comparative information continues to be reported under the accounting policies prevailing prior to 1 January 2018.

(a) Impact on the financial statements

The adoption of HKFRS 9 has resulted in changes in accounting policies. While the new policies are generally required to be applied retrospectively, as explained in note 4(b) below, the Group has taken transitional provisions in HKFRS 9. With the exception of certain aspects of hedge accounting, the Group will not restate the comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative balances have not been restated. Differences in the carrying amounts resulting from the adoption of HKFRS 9 are recognised as adjustments to the opening consolidated statement of financial position on 1 January 2018.

As explained in note 4(d) below, HKFRS 15 permits either a full retrospective or a modified retrospective approach for the adoption. The Group has elected to apply the modified retrospective approach for transition to the new accounting standard. Under this transition approach, comparative information for prior periods is not restated. The Group recognises the cumulative effect of initially applying HKFRS 15 as adjustments to the opening balance of retained earnings (or other component of equity, as appropriate) on 1 January 2018, and the Group applies the new accounting standard by using practical expedients such that contracts completed before 1 January 2018 are not reassessed. The application of HKFRS 15 has resulted in no impact on the opening balance of total equity on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail in note 4(b) to note 4(d).

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(a) Impact on the financial statements (continued)

Consolidated Statement of Financial Position (extract)	31 December 2017 As originally presented (Audited) HK$'000	Effect on adoption of HKFRS 9 HK$'000	1 January 2018 As adjusted (Unaudited) HK$'000
Non-current assets			
Available-for-sale investments	4,524,786	(4,524,786)	–
Financial assets at fair value through other comprehensive income (FVOCI)	–	3,548,594	3,548,594
Loans and advances	384,572	(531)	384,041
Deferred tax assets	656	13,291	13,947
Current assets			
Loans and advances	1,093,548	(5,219)	1,088,329
Accounts receivable	560,990	(9,139)	551,851
Other receivables and prepayments	172,126	(371)	171,755
Margin loans to customers	6,416,790	(71,413)	6,345,377
Amounts due from related parties	3,392	(2)	3,390
Financial assets at fair value through profit or loss (FVPL)	2,757,659	976,192	3,733,851
Derivative financial assets	831	–	831
Cash and bank balances	1,870,268	–	1,870,268
Total assets	17,785,618	(73,384)	17,712,234
Non-current liabilities			
Deferred tax liabilities	130	–	130
Current liabilities			
Financial liabilities at fair value through profit or loss	18,858	–	18,858
Derivative financial liabilities	803	–	803
Total liabilities	19,791	–	19,791
Net assets	17,765,827	(73,384)	17,692,443
Retained earnings	2,399,314	(62,115)	2,337,199
Revaluation reserve	14,508	(11,269)	3,239
Total equity	2,413,822	(73,384)	2,340,438

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments – Impact of adoption

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 *Financial Instruments* from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 4(c) below. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings as at 1 January 2018 and 1 January 2017 is as follows:

	Notes	**2018 HK$'000**	2017 HK$'000
Closing retained earnings at 31 December 2017 and 2016 – HKAS 39 (Audited)		**2,399,314**	1,995,407
Reclassify investments from available-for-sale to FVPL	(i)	**24,642**	–
Increase in provision for loans and advances	(ii)	**(5,750)**	–
Increase in provision for accounts receivable	(ii)	**(9,139)**	–
Increase in provision for other receivables	(ii)	**(371)**	–
Increase in provision for margin loans to customers	(ii)	**(71,413)**	–
Increase in provision for amounts due from related parties	(ii)	**(2)**	–
Increase in provision for debt investments at FVOCI	(ii)	**(13,373)**	–
Increase in deferred tax assets relating to impairment provisions		**13,291**	–
Adjustment to retained earnings from adoption of HKFRS 9 on 1 January 2018		**(62,115)**	–
Opening retained earnings at 1 January 2018 and 2017 – HKFRS 9 (Unaudited)		**2,337,199**	1,995,407

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments – Impact of adoption (continued)

(i) *Classifications and measurement*

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	*Notes*	FVPL HK$'000	FVOCI (Available-for-sale investments 2017) HK$'000	Amortised cost (Receivables 2017) HK$'000
Closing balance at 31 December 2017 – HKAS 39* (audited)		2,757,659	4,524,786	8,631,418
Reclassify debt investments from available-for-sale to FVPL	(a)	381,057	(381,057)	–
Reclassify equity investments from available-for-sale to FVPL	(a)	405,627	(405,627)	–
Reclassify other investments from available-for-sale to FVPL	(a)	199,814	(199,814)	–
Reclassify unlisted equity from FVPL to FVOCI	(b)	(10,306)	10,306	–
Reclassify investments from available-for-sale to FVOCI*	(c), (d)	–	–	–
Opening balance at 1 January 2018 – HKFRS 9 (unaudited)		3,733,851	3,548,594	8,631,418

* The closing balances as at 31 December 2017 show available-for-sale financial assets under FVOCI. These reclassifications have no impact on the measurement categories. The financial assets at amortised cost are after reclassifications and adjustments arising from the adoption of HKFRS 15 (see note 4(d)) and include trade receivables and other financial assets at amortised cost, but exclude cash and cash equivalents. The opening balance as at 1 January 2018 differs from the amounts disclosed in note 4(a) because of the impairment adjustments to receivables (HK$86,675 thousand).

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments – Impact of adoption (continued)

(i) *Classifications and measurement (continued)*

The impact of these changes on the Group's equity is as follows:

	Notes	Effect on available-for-sale reserve HK$'000	Effect on FVOCI reserve* HK$'000	Effect on retained earnings* HK$'000
Closing balance at 31 December 2017 – HKAS 39 (audited)		14,508	–	2,399,314
Reclassify equity investments from available-for-sale to FVPL	(a)	(27,818)	–	27,818
Reclassify debt investments from available-for-sale to FVPL	(a)	5,086	–	(5,086)
Reclassify other investments from available-for-sale to FVPL	(a)	(1,910)	–	1,910
Reclassify equity investments from available-for-sale to FVOCI	(c)	(3,124)	3,124	–
Reclassify debt investments from available-for-sale to FVOCI	(d)	13,258	(13,258)	–
Total impact		(14,508)	(10,134)	24,642
Opening balance at 1 January 2018 – HKFRS 9 (unaudited)		–	(10,134)	2,423,956

* Before adjustment for impairment. See note (ii) below.

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments – Impact of adoption (continued)

(i) Classifications and measurement (continued)

(a) Reclassification from available-for-sale to FVPL

Certain investments in debt investments (HK$381,057 thousand), preference shares (HK$405,627 thousand), club debenture (HK$2,099 thousand) and unlisted funds (HK$197,715 thousand) were reclassified from available-for-sale financial assets to financial assets at FVPL as at 1 January 2018. They do not meet the HKFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. Related fair value gain of HK$24,642 thousand were transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

(b) Reclassification from FVPL to FVOCI

The Group elected to present in OCI changes in the fair value of the equity investments previously classified as financial assets at FVPL, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of HK$10,306 thousand were reclassified from financial assets at FVPL to financial assets at FVOCI on 1 January 2018.

(c) Equity investments previously classified as available-for-sale

The Group elected to present in OCI changes in the fair value of most of its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, certain equity securities and preference shares with a fair value of HK$61,110 thousand and HK$1,310,343 thousand respectively were reclassified from available-for-sale financial assets to financial assets at FVOCI. Accordingly, fair value loss of HK$4,698 thousand and fair value gain of HK$7,822 thousand were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018. During the six months ended 30 June 2018, realised loss of HK$6,016 thousand relating to preference shares was recognised directly in equity.

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments – Impact of adoption (continued)

(i) *Classifications and measurement (continued)*

(d) Available-for-sale debt investments classified as FVOCI

Certain investments in debt investments of HK$2,166,835 thousand were reclassified from available-for-sale financial assets to financial assets at FVOCI as at 1 January 2018, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. Related fair value loss of HK$13,258 thousand were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018. During the six months ended 30 June 2018, realised loss on disposal of HK$1,246 thousand relating to debt investments was recognised in profit or loss.

(e) Other financial assets

Equity securities – held for trading are required to be held as FVPL under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

(ii) *Impairment of financial assets*

The Group has seven types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- loans and advances
- debt securities carried at FVOCI
- margin loans to customers
- accounts receivable
- other receivables
- amount due from related parties, and
- cash and bank balances.

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments – Impact of adoption (continued)

(ii) Impairment of financial assets (continued)

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 4(b) above.

While cash and bank balances are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group established expected credit loss ("ECL") model by using a statistical approach for material portfolios. This approach involves estimation of four risk parameters, i.e. Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure at Default ("EAD") and expected life, as well as the use of effective interest rate ("EIR") and forward-looking information.

Margin loans to customers

Margin loans' expected life are 12 months as annual review will be performed. The loss allowance recognised was, therefore, limited to 12 months expected losses. Statistical approach and average default rate are adopted in determining the expected credit losses, and the margin loans have been grouped based on the shortfall of loan balances over the respective collateral amounts and the days past due. The underlying collateral of margin finance are mostly HKEX listed shares and bonds and the Group monitors the underlying collateral ongoingly.

The restatement of the loss allowance for margin loans on transition to HKFRS9 as a result of applying the expected credit risk model was HK$71,413 thousand. The loss allowance further increases by HK$4,310 thousand during the six months ended 30 June 2018.

Accounts receivable, other receivables and amount due from related parties

The Group applies an ECL% proxy approach for these portfolios. It is to leverage on the ECL estimated from the statistical approach to calculate ECL%, and applies the ECL% to these portfolios with similar characteristics.

To measure the expected credit losses, accounts receivable, other receivables and amount due from related parties have been grouped based on shared credit risk characteristics and the days past due.

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments – Impact of adoption (continued)

(ii) Impairment of financial assets (continued)

Accounts receivable, other receivables and amounts due from related parties (continued)

The restatement of the loss allowance for accounts receivable, other receivables and amounts due from related parties on transition to HKFRS 9 as a result of applying the expected credit risk model was HK$9,512 thousand.

The loss allowances increased by a further HK$3,682 thousand for accounts receivable, other receivables and amounts due from related parties during the six months ended 30 June 2018.

Debt investments at FVOCI

All of the Group's debt investments at FVOCI are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Management consider 'low credit risk' for listed bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

The restatement of the loss allowance for debt investments at FVOCI on transition to HKFRS 9 as a result of applying the expected credit risk model was HK$13,373 thousand. The loss allowance decreases during the six months ended 30 June 2018 and the Group recognised a gain of HK$1,055 thousand from the reversal of loss allowance in the period.

Other financial assets at amortised cost

Other financial assets at amortised cost include loans and advances and bank balances. Applying the expected credit risk model resulted in the recognition of a loss allowance of HK$5,750 thousand on 1 January 2018 (previous loss allowance was nil) and a reversal of loss allowance by HK$3,028 thousand during the six months ended 30 June 2018.

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments – Impact of adoption (continued)

(ii) Impairment of financial assets (continued)

Significant estimates and judgements

Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(c) HKFRS 9 Financial instruments – Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through OCI, or through profit or loss), and

– those to be measured at amortized cost

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(c) HKFRS 9 Financial instruments – Accounting policies applied from 1 January 2018 (continued)

(ii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(c) HKFRS 9 Financial instruments – Accounting policies applied from 1 January 2018 (continued)

(ii) Measurement (continued)

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iii) Impairment of financial assets

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at FVOCI, loans and advances and margin loans to customers. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivables, other receivables and amount due from related parties, the Group applies an ECL% proxy approach for these portfolio. It is to leverage on the ECL estimated from the statistical model approach to calculate ECL%, and applies the ECL% to these portfolios with similar characteristics.

(iv) Hedge Accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(c) HKFRS 9 Financial instruments – Accounting policies applied from 1 January 2018 (continued)

(v) Transitional provision

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications of financial assets and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This means that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

(d) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transition provisions in HKFRS 15, the Group has adopted the modified retrospective approach for the new rules. The Group assessed the impacts of adopting HKFRS 15 on its financial statements. Based on the assessment, the adoption of HKFRS 15 has no significant impact on the Group's revenue recognition and the Group's interest income, dividend income and proprietary trading income is not within the scope of HKFRS 15. Details of the new accounting policies and the nature of the changes to previous accounting policies in relation to the Group's brokerage commission and various fee income provided by the Group are set out below:

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CHANGES IN ACCOUNTING POLICIES (continued)

(d) HKFRS 15 Revenue from Contracts with Customers – Impact of adoption (continued)

Revenue from the brokerage commission is recognised on execution of purchases, sales or other transactions or services by the Group on behalf of its clients at an agreed rate. Such commission was charged directly from the transaction proceed.

Revenue from corporate finance, underwriting and advisory services is recognised over time according to performance obligations and transaction prices stated clearly in the contract, and the payment schedule is agreed with clients according to the completion of relevant obligations.

Revenue from asset management services is recognised over time as those services are provided continuously over the contract period. Invoices for these services income are issued on a monthly or annually basis based on the terms stated in the contract and are usually payable within 30 days.

The Group has applied the five-step approach as prescribed in HKFRS 15 in assessing the nature of each revenue stream and considered that HKFRS 15 did not result in significant impact on the Group's accounting policies. Upon the adoption of HKFRS 15, if there is any satisfied performance obligation where the Group does not have an unconditional right to any considerations, the Group should recognise a contract asset. No contract asset is recognised by the Group upon transition and at the end of the reporting period.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, with the exception of changes in estimates that are required in determining the provision for income taxes, impairment losses and disclosure of exceptional items.

Notes to the Condensed Consolidated Financial Statements (Continued)

6. SEGMENT INFORMATION

The Group manages the business operations by the following segments in accordance with the nature of the operations and services provided:

(a) Brokerage segment provides securities trading and brokerage services.

(b) Corporate finance and underwriting segment provides corporate finance services including equity underwriting, debt underwriting, sponsor services and financial advisory services to institutional clients.

(c) Asset management and advisory segment offers traditional asset management products and services to third party clients. In addition, it also offers investment advisory services, portfolio management services and transaction execution services.

(d) Margin financing segment provides securities-backed financial leverage for both retail and institutional clients.

(e) Investment and loans segment engages in direct investment business including investments in various debt and equity securities, investment in companies and investment in loans.

(f) Others include headquarter operations such as bank interest income, and interest expense incurred for general working capital purposes.

Inter-segment transactions, if any, are conducted with reference to the prices charged to third parties and are eliminated on consolidation. There was no change in basis during the relevant periods.

Notes to the Condensed Consolidated Financial Statements (Continued)

6. SEGMENT INFORMATION (continued)

The following is an analysis of the segment revenue and segment profit or loss from continuing operations:

	Six months ended 30 June 2018 (Unaudited)							
	Brokerage HK$'000	Corporate finance and underwriting HK$'000	Asset management and advisory HK$'000	Margin financing HK$'000	Investment and loans HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Total revenue								
Commission and fee income								
– External	105,963	22,784	49,056	–	–	–	–	177,803
– Internal	–	–	3,638	–	–	–	(3,638)	–
Interest income								
– External	–	–	–	218,161	43,684	–	–	261,845
– Internal	–	–	–	–	13,128	–	(13,128)	–
Proprietary trading income								
– External	–	–	–	–	254,906	–	–	254,906
– Internal	–	–	–	–	–	–	–	–
Other income	9,795	–	3	–	14,511	15,490	–	39,799
	115,758	22,784	52,697	218,161	326,229	15,490	(16,766)	734,353
Total expenses	(108,728)	(74,021)	(98,118)	(104,424)	(139,390)	–	16,766	(507,915)
Share of results of associates	–	–	–	–	(448)	–	–	(448)
Share of results of joint ventures	–	–	–	–	22	–	–	22
Gain on disposal of an associate	–	–	–	–	15,380	–	–	15,380
Profit/(loss) before taxation	7,030	(51,237)	(45,421)	113,737	201,793	15,490	–	241,392
Other disclosures								
Depreciation	(917)	(55)	(699)	(2,407)	(32)	–	–	(4,110)
Impairment losses	–	(3,749)	–	(4,310)	4,150	–	–	(3,909)
Finance costs	–	–	–	(51,227)	(127,177)	–	13,128	(165,276)

Notes to the Condensed Consolidated Financial Statements (Continued)

6. SEGMENT INFORMATION (continued)

	Six months ended 30 June 2017 (Unaudited)							
	Brokerage HK$'000	Corporate finance and underwriting HK$'000	Asset management and advisory HK$'000	Margin financing HK$'000	Investment and loans HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Total revenue								
Commission and fee income								
– External	78,406	53,030	57,968	–	–	–	–	189,404
– Internal	–	1,250	4,027	–	–	–	(5,277)	–
Interest income								
– External	–	–	–	162,817	7,078	–	–	169,895
– Internal	–	–	–	–	5,871	–	(5,871)	–
Proprietary trading income								
– External	–	–	–	–	90,434	–	–	90,434
– Internal	–	–	–	–	–	–	–	–
Other income	5,998	1,082	–	–	13	8,451	–	15,544
	84,404	55,362	61,995	162,817	103,396	8,451	(11,148)	465,277
Total expenses	(102,803)	(62,972)	(33,308)	(59,424)	(59,013)	(25,850)	11,148	(332,222)
Share of results of associates	–	–	–	–	(6,425)	–	–	(6,425)
Share of results of a joint venture	–	–	–	–	5	–	–	5
(Loss)/profit before taxation	(18,399)	(7,610)	28,687	103,393	37,963	(17,399)	–	126,635
Other disclosures								
Depreciation	(979)	(52)	(785)	(1,906)	(31)	–	–	(3,753)
Impairment losses	–	–	–	(10,966)	–	–	–	(10,966)
Finance costs	–	–	–	(25,232)	(38,042)	–	5,871	(57,403)

	Six months ended	
	30/6/2018 HK$'000 (Unaudited)	30/6/2017 HK$'000 (Unaudited)
Revenue from external customer by location of operations:		
– Hong Kong	**687,423**	441,186
– Mainland China	**7,131**	8,547
	694,554	449,733

Notes to the Condensed Consolidated Financial Statements (Continued)

7. REVENUE AND OTHER INCOME

	Six months ended	
	30/6/2018 HK$'000 (Unaudited)	30/6/2017 HK$'000 (Unaudited)
REVENUE		
COMMISSION AND FEE INCOME		
Brokerage commission	**105,963**	78,406
Corporate finance and underwriting fee	**22,784**	53,030
Asset management and advisory income	**49,056**	57,968
	177,803	189,404
INTEREST INCOME		
Interest income from margin financing	**218,161**	162,817
Interest income from loans and advances	**43,684**	7,078
	261,845	169,895
PROPRIETARY TRADING INCOME		
Unrealised gain on financial assets at fair value through profit or loss	**125,616**	26,923
Realised (loss)/gain on financial assets at fair value through profit or loss	**(13,855)**	1,606
Realised loss on debt investments at fair value through other comprehensive income	**(1,246)**	–
Realised gain on available-for-sale investments	**–**	5,567
Realised gain on derivative financial assets	**190**	140
Fair value changes from financial liabilities at fair value through profit or loss	**2,487**	(2,046)
Dividend income from		
– Financial assets at fair value through profit or loss	**36,207**	511
– Financial assets at fair value through other comprehensive income	**2,370**	–
– Available-for-sale investments	**–**	59
Bond interest income from		
– Financial assets at fair value through profit or loss	**34,719**	11,699
– Financial assets at fair value through other comprehensive income	**68,418**	–
– Available-for-sale investments	**–**	45,975
	254,906	90,434
	694,554	449,733

Notes to the Condensed Consolidated Financial Statements (Continued)

7. REVENUE AND OTHER INCOME (continued)

	Six months ended 30/6/2018 HK$'000 (Unaudited)	Six months ended 30/6/2017 HK$'000 (Unaudited)
OTHER INCOME		
Handling fees	**9,798**	5,935
Other interest income	**13,752**	7,202
Others	**16,249**	2,407
	39,799	15,544

8. IMPAIRMENT LOSSES

	Six months ended 30/6/2018 HK$'000 (Unaudited)	Six months ended 30/6/2017 HK$'000 (Unaudited)
Impairment losses on:		
Accounts receivable	**3,730**	–
Margin loans to customers	**4,310**	10,966
	8,040	10,966
Reversal of impairment losses on:		
Loans and advances	**(3,028)**	–
Debt investments at FVOCI	**(1,055)**	–
Other receivables	**(47)**	–
Amounts due from related parties	**(1)**	–
	3,909	10,966

Notes to the Condensed Consolidated Financial Statements (Continued)

9. PROFIT BEFORE TAXATION

	Six months ended	
	30/6/2018 HK$'000 (Unaudited)	30/6/2017 HK$'000 (Unaudited)
Profit before taxation has been arrived at after charging:		
Finance costs:		
– Interest expenses on subordinated loans from the ultimate holding company	**12,649**	9,903
– Interest expenses on loans from the ultimate holding company	**33,021**	12,835
– Interest expenses on bank loans and overdraft from other financial institutions	**94,095**	34,654
– Interest expenses on a total return swap arrangement with external third parties	**25,487**	–
– Others	**24**	11
	165,276	57,403
Depreciation	**4,110**	3,753
Listing expenses	**–**	25,851
Loss on disposal of property and equipment	**792**	–
Operating lease charges	**29,392**	27,233
Staff costs	**138,967**	112,194
Guarantee fee (Note 26)	**33,793**	–

Notes to the Condensed Consolidated Financial Statements (Continued)

10. INCOME TAX EXPENSE

	Six months ended	
	30/6/2018 HK$'000 (Unaudited)	30/6/2017 HK$'000 (Unaudited)
Current tax		
Hong Kong Profits Tax	**11,058**	17,200
PRC Enterprise Income Tax	**117**	–
Over provision in prior periods	**–**	(1,130)
Total current tax	**11,175**	16,070
Deferred tax		
Reversal from temporary difference	**(5,197)**	–
Income tax expense recognised in profit or loss	**5,978**	16,070

Income tax expense is recognised based on management's estimate of the weighted average effective annual income tax rate expected for the full financial year.

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the current and prior period. Taxation on overseas profits has been calculated on the estimated assessable profit for the periods at the rates of taxation prevailing in the countries in which the Group operates.

11. DIVIDENDS

Dividends approved during the interim period

	Six months ended	
	30/6/2018 HK$'000 (Unaudited)	30/6/2017 HK$'000 (Unaudited)
Final dividend for previous financial year declared and approved of HK$0.08 per ordinary share (2017: Nil)	**218,751**	–

Dividends attributable to the interim period

No dividend was paid or declared by the Company for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

Notes to the Condensed Consolidated Financial Statements (Continued)

12. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended	
	30/6/2018 HK$'000 (Unaudited)	30/6/2017 HK$'000 (Unaudited)
Profit attributable to shareholders of the Company	**231,863**	110,976
Weighted average number of ordinary shares in issue (in '000 shares)	**2,734,392**	2,164,742
Earnings per share (in HKD per share)	**0.08**	0.05

There were no potential diluted ordinary shares and the diluted earnings per share were the same as the basic earnings per share.

Notes to the Condensed Consolidated Financial Statements (Continued)

13. FINANCIAL ASSETS AND LIABILITIES

The table below summarised the information relating to the fair value hierarchy of financial assets and financial liabilities measured at fair value on a recurring basis.

	At 30 June 2018 (Unaudited)			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at fair value through other comprehensive income				
Equity securities	1,920	–	–	1,920
Debt investments	1,455,129	–	325,894	1,781,023
Preference shares	1,141,541	–	–	1,141,541
Unlisted equity	–	–	65,462	65,462
	2,598,590	–	391,356	2,989,946
Financial assets at fair value through profit or loss				
Club debenture	–	–	2,066	2,066
Equity securities	33,946	–	–	33,946
Debt investments	906,178	–	39,187	945,365
Funds	36,468	–	–	36,468
Unlisted funds	–	–	2,808,374	2,808,374
Preference shares	–	–	823,937	823,937
Unlisted equity	–	–	39,170	39,170
Structured financial product	–	–	90,948	90,948
	976,592	–	3,803,682	4,780,274
Derivative financial assets	20	–	–	20
Financial liabilities at fair value through profit or loss				
Financial liabilities to the investors of the funds consolidated	(15,249)	–	–	(15,249)
Derivative financial liabilities	–	(20)	–	(20)

Notes to the Condensed Consolidated Financial Statements (Continued)

13. FINANCIAL ASSETS AND LIABILITIES (continued)

	At 31 December 2017 (Audited)			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Available-for-sale investments				
Equity securities	1,573	–	–	1,573
Debt investments	1,895,520	100,000	552,372	2,547,892
Preference shares	1,310,343	–	405,627	1,715,970
Club debenture	–	–	2,099	2,099
Unlisted equity	–	–	59,537	59,537
Unlisted fund	–	–	197,715	197,715
	3,207,436	100,000	1,217,350	4,524,786
Financial assets at fair value through profit or loss				
Equity securities	43,220	–	–	43,220
Debt investments	571,345	–	–	571,345
Funds	36,944	–	–	36,944
Unlisted funds	–	–	1,663,185	1,663,185
Preference shares	–	–	346,331	346,331
Unlisted equity	–	–	10,306	10,306
Structured financial product	–	–	86,328	86,328
	651,509	–	2,106,150	2,757,659
Derivative financial assets	831	–	–	831
Financial liabilities at fair value through profit or loss				
Financial liabilities to the investors of the funds consolidated	(18,858)	–	–	(18,858)
Derivative financial liabilities	–	(803)	–	(803)

Details of disclosure for fair value measurement are set out in note 27.

Notes to the Condensed Consolidated Financial Statements (Continued)

14. INTEREST IN ASSOCIATES

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Unlisted investment at the beginning of the period/year	**86,769**	86,769
Accumulated profit after acquisition	**16,945**	15,947
Addition for the period	**213,816**	–
Distribution for the period	**(7,091)**	–
Share of profit for the period/year	**(448)**	998
Disposal during the period/year	**(96,291)**	–
Interest in associates	**213,700**	103,714

On 9 March 2018, the Group invested in BIAM Leveraged Credit Fund SP for a consideration of US$25,000 thousand and has significant influence over the fund. Therefore, it is accounted for as an associate.

On 9 April 2018, the Group disposed of all its interest in an associate, ChinaStar Limited for International Economic & Technical Cooperation with a realised gain of HK$15,380 thousand.

15. LOANS AND ADVANCES

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Gross loans and advances	**1,507,446**	1,749,090
Less: Loan impairment allowances	**(273,692)**	(270,970)
	1,233,754	1,478,120
Net loans and advances		
Non-current portion	**1,200,451**	384,572
Current portion	**33,303**	1,093,548
	1,233,754	1,478,120

Notes to the Condensed Consolidated Financial Statements (Continued)

15. LOANS AND ADVANCES (continued)

The movements in impairment allowance of loans and advances are as follows:

	2018			
	Impairment allowance under HKFRS 9 HK$'000 (Unaudited)	Impairment allowance under HKAS 39 HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	2017 HK$'000 (Audited)
Beginning of the period/year	**–**	**270,970**	**270,970**	270,970
Amount restated through opening retained earnings on adoption of HKFRS 9	**276,720**	**(270,970)**	**5,750**	–
Impairment allowances reversed during the period/year	**(3,028)**	**–**	**(3,028)**	–
End of the period/year	**273,692**	**–**	**273,692**	270,970

There was no past due but not impaired loans and advances as at 30 June 2018 and 31 December 2017.

16. ACCOUNTS RECEIVABLE

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Corporate finance and underwriting business	**20,419**	105,599
Less: Written off	**–**	(60,604)
	20,419	44,995
Dealing in securities and futures business		
– Clients	**421,940**	165,831
– Brokers	**113,488**	87,989
– Clearing house	**71,046**	262,175
	626,893	560,990
Less: Impairment losses allowance	**(12,869)**	–
	614,024	560,990

Notes to the Condensed Consolidated Financial Statements (Continued)

16. ACCOUNTS RECEIVABLE (continued)

The movements in impairment allowance of accounts receivables are as follows:

	2018			
	Impairment allowance under HKFRS 9 HK$'000 (Unaudited)	Impairment allowance under HKAS 39 HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	2017 HK$'000 (Audited)
Beginning of the period/year	–	–	–	–
Amount restated through opening retained earnings on adoption of HKFRS 9	9,139	–	9,139	–
Impairment allowances charged during the period/year	3,730	–	3,730	–
End of the period/year	12,869	–	12,869	–

The following is an ageing analysis of accounts receivable based on the date of invoice/contract note at the reporting date:

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Neither past due nor impaired	610,320	551,726
Less than 31 days past due	885	177
31 – 60 days past due	2,482	3
61 – 90 days past due	38	–
Over 90 days past due	13,168	9,084
	16,573	9,264
Impairment allowance	(12,869)	–
Total	614,024	560,990

Clients receivables from securities dealing are receivable on the settlement dates of their respective transactions, normally two or three business days after the respective trade dates.

Notes to the Condensed Consolidated Financial Statements (Continued)

16. ACCOUNTS RECEIVABLE (continued)

The receivables from brokers are neither past due nor impaired. Brokers receivables are repayable on the settlement dates of their respective trade dates, normally two or three business days after the respective trade dates.

Clearing house receivables are repayable on the settlement dates of the respective trade dates, normally two or three business days after the respective trade dates.

For the receivables from corporate finance and underwriting business, the Group has policies for allowance for bad and doubtful debts which are based on the evaluation of collectability and ageing analysis of accounts receivable and on management's judgement, including the current credit worthiness and the past collection history of each client. Settlement is done based on the completion of each phase of the project.

17. OTHER RECEIVABLES AND PREPAYMENTS

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Other receivables	**171,105**	163,047
Prepayments	**77,640**	9,079
Less: impairment losses	**(324)**	–
	248,421	172,126

Notes to the Condensed Consolidated Financial Statements (Continued)

18. MARGIN LOANS TO CUSTOMERS

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Gross margin loans to customers	**6,176,971**	6,444,821
Less: Impairment allowances	**(103,754)**	(28,031)
	6,073,217	6,416,790

The movements in impairment allowance of margin loans to customers are as follows:

	2018			
	Impairment allowance under HKFRS 9 HK$'000 (Unaudited)	Impairment allowance under HKAS 39 HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	2017 HK$'000 (Audited)
Beginning of the period/year	**–**	**28,031**	**28,031**	8,260
Amount restated through opening retained earnings on adoption of HKFRS 9	**99,444**	**(28,031)**	**71,413**	–
Impairment allowances charged during the period/year	**4,310**	**–**	**4,310**	19,771
End of the period/year	**103,754**	**–**	**103,754**	28,031

No ageing analysis is disclosed, as in the opinion of the Directors, an ageing analysis does not give additional view of the nature of the margin loan business. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral securities accepted by the Group.

Notes to the Condensed Consolidated Financial Statements (Continued)

19. CASH AND BANK BALANCES

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Current and savings accounts	**472,507**	1,123,138
Time deposits with original maturity of less than three months	**1,020,474**	122,490
Cash and cash equivalents	**1,492,981**	1,245,628
Time deposits with original maturity of more than three months	**1,640**	1,640
Collateralized cash	**623,000**	623,000
	2,117,621	1,870,268

20. BORROWINGS

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Bank loans and other borrowings		
Non-current – ultimate holding company (Note 24)	**450,000**	–
Non-current – authorised institutions	**4,274,503**	–
	4,724,503	–
Current – ultimate holding company (Note 24)	**1,050,000**	2,804,118
Current – authorised institutions	**4,006,024**	6,641,124
Current – others	**623,000**	623,000
	5,679,024	10,068,242
Subordinated loans (Note 24)		
Current	**1,000,000**	1,000,000
Total	**11,403,527**	11,068,242

Notes to the Condensed Consolidated Financial Statements (Continued)

20. BORROWINGS (continued)

During the year ended 31 December 2017, the Group entered into a total return swap arrangement with external third parties, who initially paid cash of HK$623 million. In return, the Group is required to pay total return from a margin loan to the counterparties. The arrangement could be terminated with agreement by the parties and the payable amount was included in the current portion of borrowings.

At the reporting date, bank and other borrowings were repayable as follows:

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Bank and other borrowings		
Within 1 year	**6,679,024**	11,068,242
Between 2 and 3 years	**4,724,503**	–
	11,403,527	11,068,242

21. ACCOUNTS PAYABLE

Accounts payable arising from the business of dealing in securities and options are as follows:

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Clients – trade settlement	**264,624**	388,080
Clearing house	**190,844**	2,588
Brokers	**2,895**	–
	458,363	390,668

No ageing analysis is disclosed, as in the opinion of the Directors, an ageing analysis does not give additional view of the nature of these business. The settlement terms of accounts payable arising from client businesses are normally two to three days after trade date or at specific terms agreed with clients, brokers or clearing house.

Notes to the Condensed Consolidated Financial Statements (Continued)

22. DEFERRED REVENUE

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Deferred revenue	**21,374**	25,788

Deferred revenue mainly represents payment received in advance for advisory and fund management services. They are recognised as revenue when the Group has rendered the services.

23. SHARE CAPITAL

	Number of shares		Share capital	
	Six months ended 30/6/2018 Thousand Shares (Unaudited)	Year ended 31/12/2017 Thousand Shares (Audited)	Six months ended 30/6/2018 HK$'000 (Unaudited)	Year ended 31/12/2017 HK$'000 (Audited)
Issued and fully paid				
Balance brought forward	**2,734,392**	2,000,000	**3,942,216**	2,000,000
Issuance of ordinary shares upon listing and exercise of over-allotment option	**–**	734,392	**–**	1,942,216
Balance carried forward	**2,734,392**	2,734,392	**3,942,216**	3,942,216

Notes to the Condensed Consolidated Financial Statements (Continued)

24. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following material transactions with related parties:

(a) Ultimate holding company

	Six months ended	
	30/6/2018 HK$'000 (Unaudited)	30/6/2017 HK$'000 (Unaudited)
Transaction		
Interest income from deposits	**744**	454
Interest expenses	**45,670**	22,738
Commission income	**1,696**	4,494
Commission expenses	**1,744**	3,416
Asset management and advisory income	**4,118**	–
Fund management fee income	**6,796**	3,298
Underwriting fee income	**–**	6,222
Rental expenses	**151**	47
Other operating expenses	**1,064**	703
Trading gain from derivatives transactions	**903**	9,172
Realised gain on financial assets at fair value through profit or loss	**714**	697
Unrealised (loss)/gain on financial assets at fair value through profit or loss	**(799)**	756

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Balance of transaction		
Accounts receivable	**45,340**	17,478
Borrowings	**1,500,000**	2,804,118
Subordinated loans	**1,000,000**	1,000,000
Derivative financial liabilities	**20**	831
Accounts payable	**77,708**	222,866
Amount due to the ultimate holding company	**6,146**	6,080

Notes to the Condensed Consolidated Financial Statements (Continued)

24. RELATED PARTY TRANSACTIONS (continued)

(b) Fellow subsidiaries and an associate

	Six months ended	
	30/6/2018 HK$'000 (Unaudited)	30/6/2017 HK$'000 (Unaudited)
Transaction		
Interest income from deposits	**39**	–
Commission income	**5,206**	–
Commission expenses	**711**	–
Asset management and advisory income	**3,985**	5,312
Underwriting fee income	**4,293**	5,424
Rental expenses	**4,600**	4,277
Other operating expenses	**3,792**	3,033

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Balance of transaction		
Accounts receivable	**–**	103
Amount due from fellow subsidiaries	**39**	–

(c) Related parties

	Six months ended	
	30/6/2018 HK$'000 (Unaudited)	30/6/2017 HK$'000 (Unaudited)
Transaction		
Interest income from debt investment	**5,141**	4,203
Fund management fee income	**10,406**	24,484

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Balance of transaction		
Amount due from related parties	**2,514**	3,392

Notes to the Condensed Consolidated Financial Statements (Continued)

25. COMMITMENTS

Operating leases commitments

At the end of the reporting period, the Group had commitments for future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
No later than one year	**54,959**	41,201
Later than 1 year and no later than 5 years	**79,682**	34,344
	134,641	75,545

26. CONTINGENT LIABILITIES

Guaranteed return by asset management service

In connection with the Group's asset management service, the Group entered into a service agreement in August 2015 which provides a client with a guarantee on the investment principal and return. The investment principal amounted to MOP500,000,000. The service agreement will expire in August 2020. In November 2016, the Group entered into another service agreement with the same client on similar terms for an additional investment principal of MOP500,000,000, which will expire in November 2021. In March 2018, the Group entered into another service agreement with the same client on similar terms for an additional investment principal of MOP2,000,000,000, which will expire in March 2023. Performance of the relevant investment portfolios will be subject to uncertainties such as market conditions and volatility.

The relevant investment portfolios mainly consist of fixed income instruments, and the total annual guarantee on investment return from the portfolios is MOP75,000,000. During the year 2017, the average yield of the relevant investment portfolios had been above the guaranteed return. During the six months ended 30 June 2018, the average yield of the relevant investment portfolios had been below the guaranteed return and the Group has paid the client HK$33,793,000 equivalent of guarantee fee to fulfill the guarantee provided.

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, loans and receivables (made up of other assets, accounts and other receivables, loans and advances), margin loans to customers, amount due from fellow subsidiaries, cash and bank balances, accounts payable, borrowings, subordinated loans from the ultimate holding company and amount due to the ultimate holding company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group, from time to time, uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Risk Management Department under policies approved by the Board of Directors. Risk Management Department identifies and evaluates certain risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with disclosure in the consolidated financial statements for the year ended 31 December 2017.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2018.

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis (continued)

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The table below provides further information regarding the valuation of material financial assets and liabilities under Level 3.

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis (continued)

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income/ Available-for-sale investments						
Club debenture	–	2,099	Recent transaction price	Liquidity discount rate	25%	(ii)
Unlisted equity	**55,930**	59,537	Allocated net asset value	Net asset value	N/A	(iv)
Unlisted equity	**9,532**	–	Market comparable approach/ Allocated net asset value	EBITDA multiples/Net asset value	10.7x-27.2x/ N/A	(iii)/(iv)
				Discount rate for lack of marketability/ Net asset value	35%/ N/A	(ii)/(iv)
Unlisted fund	–	39,537	Allocated net asset value	Net asset value	N/A	(iv)
Unlisted fund	–	158,178	Recent transaction price	(i)	N/A	(v)
Debt investments	–	194,000	Discount cash flow	Discount rate	6.5%	(v)
Debt investments	**325,894**	358,372	Recent transaction price	(i)	N/A	(v)
Preference shares	–	405,627	Recent transaction price	(i)	N/A	(v)
Total	**391,356**	1,217,350				

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis (continued)

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss						
Club debenture	**2,066**	–	Recent transaction price	Liquidity discount rate	25%	(ii)
Debt investments	**39,187**	–	Recent transaction price	(i)	N/A	(v)
Unlisted equity	**–**	10,306	Market comparable approach/ Allocated net asset value	EBITDA multiples/Net asset value	10.7x-27.2x/ N/A	(iii)/(iv)
				Discount rate for lack of marketability/ Net asset value	35%/ N/A	(ii)/(iv)
Unlisted equity	**39,170**	–	Recent transaction price	(i)	N/A	(v)
Unlisted fund	**1,414,035**	702,804	Recent transaction price	(i)	N/A	(v)
Unlisted fund	**392,790**	294,621	Market comparable approach/Recent transaction price	Sales multiples/(i)	5.0x-10.6x/ N/A	(iii)/(v)
				Discount rate for lack of marketability/(i)	7.8%/N/A	(ii)/(v)
Unlisted fund	**1,001,549**	665,760	Allocated net asset value/Recent transaction price	Net asset value/(i)	N/A	(iv)/(v)
Preference shares	**823,937**	346,331	Recent transaction price	(i)	N/A	(v)
Structured financial product	**90,948**	86,328	Guaranteed principal plus expected return	Expected rate	N/A	(vi)
Total	**3,803,682**	2,106,150				

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis (continued)

(i) The Directors of the Company consider that the financial position of these investments have no significant change since its recent transaction, and hence no adjustment to the recent transaction price is needed.

(ii) The higher the discount rate, the lower the fair value.

(iii) The higher the multiples, the higher the fair value.

(iv) The higher the net asset value, the higher the fair value.

(v) The higher the adjustment to the recent transaction price, the higher the fair value.

(vi) The higher the expected rate, the higher the fair value.

The following table presents the changes in Level 3 instruments for the six months ended 30 June 2018 and for the year ended 31 December 2017.

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Financial assets at fair value through other comprehensive income/Available-for-sale investments		
Beginning of the period/year	**1,217,350**	172,811
Addition during the period/year	**–**	1,009,850
Reclassification from financial assets at fair value through profit or loss	**10,306**	–
Reclassification to financial assets at fair value through profit or loss	**(639,250)**	–
Disposal during the period/year	**(194,000)**	(3,529)
Net gain recognised in profit or loss	**412**	661
Net (loss)/gain recognised in other comprehensive income	**(3,462)**	37,557
End of the period/year	**391,356**	1,217,350

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on recurring basis (continued)

	30/6/2018 HK$'000 (Unaudited)	31/12/2017 HK$'000 (Audited)
Financial assets at fair value through profit or loss		
Beginning of the period/year	**2,106,150**	105,672
Addition during the period/year	**1,440,891**	1,996,539
Reclassification from financial assets at fair value through other comprehensive income	**639,250**	–
Reclassification to financial assets at fair value through other comprehensive income	**(10,306)**	–
Disposal during the period/year	**(552,454)**	(97,030)
Net gain recognised in profit or loss	**180,151**	100,969
End of the period/year	**3,803,682**	2,106,150

The Group adopted consistent and transparent methodology basing on these valuation techniques above for determining fair value. Regardless of the valuation methodology used, once used, it should continue to be used until a new methodology will provide a better approximation of the investment's current fair value. The management expected that there would not be frequent changes in valuation techniques.

28. SUBSEQUENT EVENT

On 6 August 2018, the Group entered into various agreements to partially dispose its shares of one of its portfolio investment, with fair value of US$46,512 thousand as at 30 June 2018, at a total consideration of US$64,651 thousand.

Glossary

"1H"	the first six months of a certain calendar year
"AUM"	the amount of assets under management
"Board" or "Board of Directors"	the Board of Directors of the Company
"BOCOM"	Bank of Communications Co., Ltd. (交通銀行股份有限公司), established in 1908, a company registered in the PRC as a joint stock limited liability company on 24 December 2004, the H shares and A shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange, respectively, and the ultimate controlling shareholder of the Company
"BOCOM International (Shanghai)"	BOCOM International (Shanghai) Equity Investment Management Company Limited (交銀國際(上海)股權投資管理有限公司), a company incorporated in the PRC with limited liability on 25 October 2010 and a subsidiary of the Company
"BOCOM International (Shenzhen)"	BOCOM International Equity Investment Management (Shenzhen) Company Limited (交銀國際股權投資管理（深圳）有限公司), a company incorporated in the PRC with limited liability on 3 February 2016, a subsidiary of BOCOM International Asset Management Limited and an indirect subsidiary of the Company
"BOCOM Nominee"	Bank of Communications (Nominee) Company Limited, a company incorporated in Hong Kong with limited liability on 21 August 1981 and a subsidiary of BOCOM and a shareholder of the Company holding Shares on trust for BOCOM
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	BOCOM International Holdings Company Limited (交銀國際控股有限公司), a company incorporated in Hong Kong with limited liability on 3 June 1998, the issued Shares of which are listed on the main board of the Stock Exchange
"Corporate Governance Code"	code on corporate governance practices contained in Appendix 14 to the Listing Rules
"Director(s)"	director(s) of the Company
"Expectation Investment"	Expectation Investment Limited, a company incorporated in Hong Kong with limited liability on 29 January 1997, an indirect subsidiary of BOCOM and a shareholder of the Company

Glossary

"Federal Reserve"	Federal Reserve System of the US
"GDP"	gross domestic product
"Group" or "we" or "us"	the Company and its subsidiaries
"HKD" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing"	listing of the shares on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MOP"	Macau Pataca, the lawful currency of Macau
"PRC" or "China"	People's Republic of China
"Prospectus"	the prospectus of the Company dated 5 May 2017
"Reporting Period"	the six months ended 30 June 2018
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	Securities and Future Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Shanghai Stock Exchange"	the Shanghai Stock Exchange (上海證券交易所)
"Stock Exchange" or "SEHK"	The Stock Exchange of Hong Kong Limited
"US" or "United States"	the United States of America
"USD" or "US$"	United States dollars, the lawful currency of the United States