交銀國際
BOCOM International

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

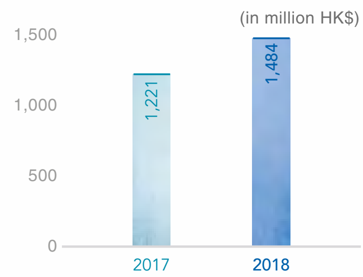
(Incorporated in Hong Kong with limited liability)
Stock code: 3329

2018
Annual Report

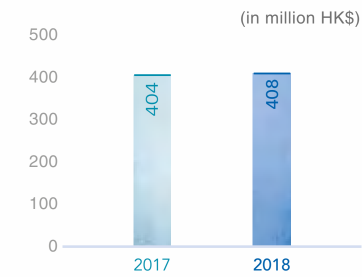
Contents

Financial Highlights

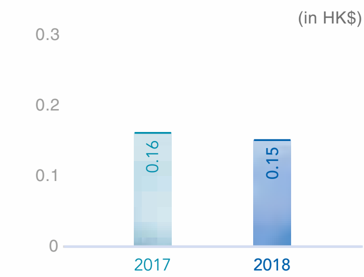
Revenue and other income



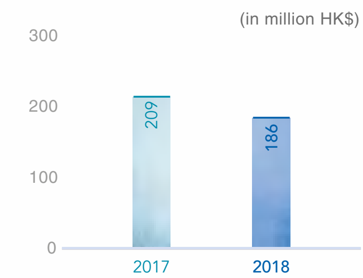
Profit attributable to shareholders of the Company



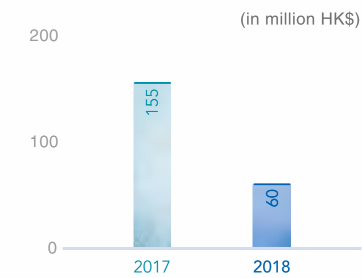
Basic/Diluted earnings per share



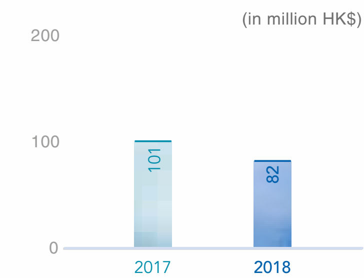
Brokerage



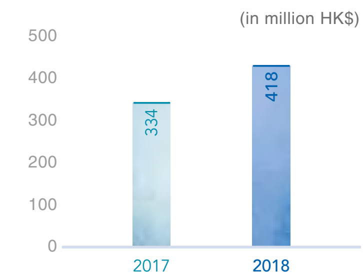
Corporate finance and underwriting



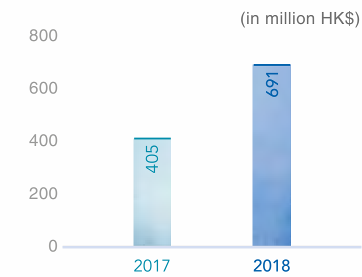
Asset management and advisory



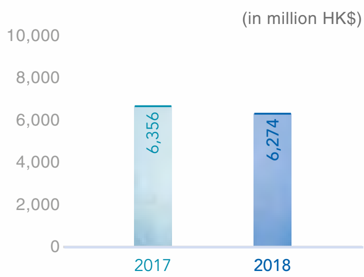
Margin financing



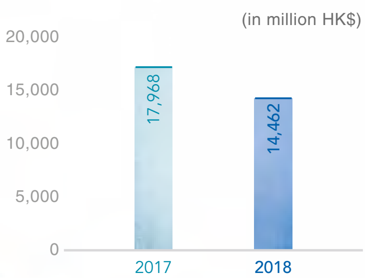
Investment and loans



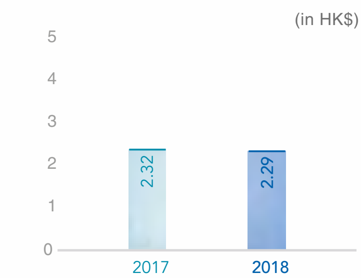
Shareholders' equity – attributable to Shareholders of the Company

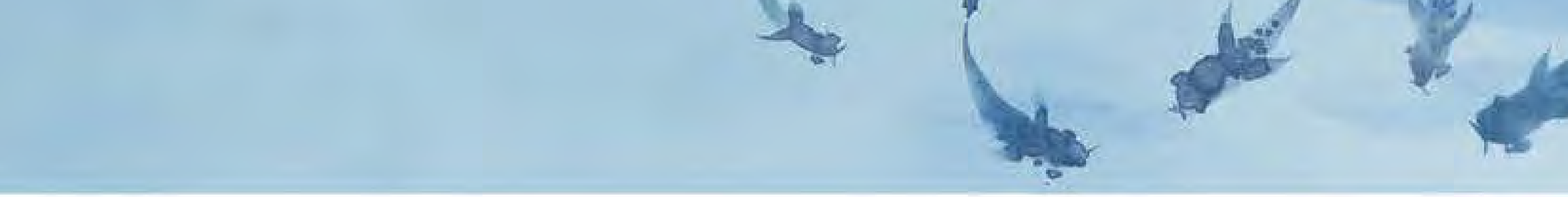


Total assets



NAV per share – attributable to Shareholders of the Company





Financial Summary

	For the year ended 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000
RESULTS					
Revenue and other income	781,920	1,140,604	1,052,973	1,220,533	**1,484,259**
Profit attributable to shareholders of the Company	23,677	350,238	350,609	403,907	**407,605**
Retained earnings carried forward	1,294,560	1,644,798	1,995,407	2,399,314	**2,520,038**

	As at 31 December				
	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000
ASSETS AND LIABILITIES					
Current assets	6,096,498	7,117,829	6,890,148	12,886,591	**11,072,629**
Total assets	6,373,317	8,796,350	10,179,283	17,968,322	**14,461,839**
Current liabilities	2,871,160	3,709,829	4,896,640	11,608,077	**1,721,285**
Total liabilities	3,071,160	5,151,410	6,193,165	11,608,207	**8,187,631**

The results of the Group for the three financial years ended 31 December 2014, 2015 and 2016 and its assets and liabilities were extracted from the prospectus of the Company dated 5 May 2017.

Chairman's Statement

MACRO ENVIRONMENT AND MARKET REVIEW

2018 marks the 10th anniversary of the Global Financial Crisis. Geopolitical conflicts escalated and market volatility returned. The reversal of globalisation, international trade protectionism, Brexit, as well as the end of Global QE, have all imperiled the fragile global recovery. While the US previously benefited from the fiscal stimulus, economic growth is slowing down. The EU was already displaying signs of weakness, which was further affected by the European Central Bank's announcement at the end of 2018 to officially end the quantitative easing measures. Japan had to keep its ultra-easy monetary policy, as the economy has started to decline again. Emerging economies suffered under the strong Dollar and their currency depreciation pressures were intensified.

China has implemented a series of policies to control the risks of economic slowdown. The PBoC has adjusted its monetary policy by cutting RRR four times, and created new monetary policy tools which are targeted at regulating liquidity. The private companies that have been the backbone of Chinese economic growth are highly recognised. Financial regulation and oversight have also been adjusted, with control over the continuing build-up of leverage being the focus of managing financial risks. Tax cuts are in full swing and the development of the real economy has been further promoted. In 2018, China also commemorated the 40th anniversary of its "Reform and Opening-up". China's model of economic development has become more sustainable and of higher quality. The contribution from the service industry to GDP has climbed, and consumption has assumed the role of key growth driver for the Chinese economy. In 2018, the Hong Kong capital market was weak, and volatility returned. Hang Seng index moved down after hitting a record high in January, falling more than 30% from its peak to trough during the year. Most Hang Seng sector indexes declined.

BUSINESS REVIEW AND ANALYSIS

The Group is BOCOM's, a state-owned joint stock commercial bank, only integrated platform for securities and related financial services in Hong Kong. The Group is also one of the earliest licensed securities firms with PRC background in Hong Kong and the first listed securities firm owned by a Chinese bank in Hong Kong. The Group has experienced many economic cycles, industry cycles and various regulatory reforms, and has developed to become one of the largest securities firms specialising in securities and brokerage, margin financing, corporate finance and underwriting, investment and loans, asset management and advisory businesses in Hong Kong. In 2018, under the leadership of the Board and the combined efforts of all employees, with creating an integrated and active large-scale international Chinese financial services institution in the region being its long-term strategic development goal, the Group continued to develop and optimise its business, products and services. We managed to successfully achieve "steady progress and steady success" amid a challenging operating environment, making encouraging improvement which laid a solid foundation for our future development.

Over the past year, the Group leveraged on its strategic framework and business advantages amid a challenging operating environment, continued to strive for steady progress, committed to balance development against risks and returns, so as to grasp different trends properly, including: (1) to grasp the rising trend of new economy, increase the proportion of new economy business in various business segments, and achieve great progressive results in term of the replacement of old growth drivers by the new ones; (2) to grasp the trend of financial technology development, vigorously increase the application of financial technology, continuously launch the intelligent customer service system and relevant business and internal management systems, and further promote the application of financial technology at the front, middle and back levels, in order to lay a sound technological foundation for development in the future; (3) to grasp the changing business trend, accelerate the conversion of traditional brokerage business towards wealth management business, continue to expand the business scope and enrich the range of business products. In addition, through the operation of the newly established subsidiary in Shenzhen, the setting up of domestic and overseas collaborative business platforms in the Greater Bay Area are in a preliminary stage; (4) to grasp the trend of market volatility, put aside the allocation for its portfolio under the conditions of higher downside risk alongside high default rate in the bond market, and partly invested on structured finance, and realise investment income promptly according to market changes, fix risk exposure to reduce losses, thereby ensuring a good momentum in the sustained and steady development of the business.

In 2018, the Company obtained various awards, including the "Corporate Governance Award" presented by Capital Weekly, the "Excellent Hong Kong Securities Institution 2018" and "Hong Kong Outstanding Wealth Management Team 2018" awards presented by Wallstreetcn, as well as the "Top China Asset Management Brokerage Award" presented by Securities Times. Our research team also won 11 awards including No.2 Best Economist Team (HK) for 2018 by Asiamoney, reflecting the recognition and confidence the capital market has in the corporate governance of the Group and the outlook of business development of the Company.

With the combined efforts of all colleagues, the Group has achieved steady growth in operation results. In 2018, the revenue and other income of the Group amounted to HK$1,484.3 million, representing an increase of 21.6% YoY. The profit amounted to HK$411 million, representing an increase of 1.9% YoY. Meanwhile, the Group is dedicated to raising our ability in compliance and risk management and improving our corporate governance mechanism so as to provide a powerful and effective protection and support to the further expedited development in the future. It has also demonstrated the continuing commitment of the Group to realise the values for Shareholders in the long run and constantly enhance its corporate governance. The Board will recommend the payment of a final dividend of 2018 of HK$0.08 per Share at the forthcoming general meeting in 2019 to repay Shareholders' support for the Group.

OUTLOOK AND STRATEGY

After the synchronised global growth in 2017, the global growth pattern in 2018 started to diverge and decelerate, and hence will affect the growth expectations for 2019. In the US, the normalisation of monetary policy will add uncertainties to the US financial markets after a decade of prosperity, and hence affect the corresponding growth expectation; the EU is confronted with economic and financial challenges; Brexit will have long-term impact on the UK economy; and Japan is caught in the middle of global trade friction. Emerging markets continue to diverge, with some experiencing financial risks. In summary, many of these uncertainties in a complex environment are known, but the consequences are unknown. We must be on high alert for black swan and grey rhino events and the consequence of such. In 2019, it is predicted that the volatility of the market will continue. The uncertainties will likely slow down global economic growth, and challenge companies' earnings growth. Despite these headwinds that we are facing, China remains the world's growth stabiliser, and is predicted to achieve approximately 6% growth in 2019, after series of policy fine-tuning.

Looking ahead to 2019, policy support will be strengthened, as economic activities have slowed down. The three of China's balance sheets is leveraged, but not yet breaking. As such, we see room for leverage to be added or shifted between public and private sectors. Stimulus will still work, albeit with diminishing marginal efficacy. If the trade disputes worsen, policy responses, such as supply-side reform and regulatory control in real estate, will be strengthened in kind. Further RRR cuts, interest rate and tax cuts, lending under window guidance, relaxed property curbs, as well as tweaking of the supply-side reform are possible. Further opening of the access to China's immense market for foreign companies will also be in the cards.

Being the international flagship of the BOCOM Group, the Group is committed to creating a large and vibrant international integrated financial services institution with PRC background in the region. Looking forward to the year ahead, despite the complicated and constantly changing market environment, we see a series of new opportunities including structural adjustment, new energy and technology innovation. The Group will adhere to the strategy of "dealing changes with stability, making improvement with innovation", further expand new business and improve products and services, continuously strengthen the financial technology and improve our operation, with greater effort on ongoing review of and prudent internal controls so as to balance the risks and returns. The Group will strive to take the path of high-quality development, establish an integrated financial services institution and realise the balanced development of scale, quality and efficiency. The Group will assist domestic mainland enterprises to go abroad, expand and prosper, and at the same time, we will also offer a range of capital market services and products for enterprises at home and abroad. The Group strives to create bigger values for clients and Shareholders.

Management Discussion and Analysis

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 specialising 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 Year, the Group's revenue and other income was HK$1,484.3 million, representing an increase of 21.6% when compared with HK$1,220.5 million in 2017. The Group's profit was HK$411.0 million, representing an increase of 1.9% when compared with HK$403.5 million in 2017.

Securities Brokerage and Margin Financing

Our securities brokerage business includes executing trades on behalf of clients in listed company 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 Year, 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 maximise the use of our existing resources and create new business opportunities.

Apart from the infrastructure enhancement, we also launched series of activities for product knowledge sharing. Being one of the top performing participants recognised by the Hong Kong Exchanges and Clearing Limited (HKEX), we received "Award in Providing Stock Futures Education" on 10 December 2018.

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 clients by offering preferential interest rates and excluding small market capitalisation and illiquid stocks in our margin list.

The Hong Kong stock market was bullish at the beginning of 2018. The Hang Seng Index hit its record high on 26 January 2018 since 2007, but experienced fluctuations 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. The decline in trading activities from quarter to quarter reflected the diversity of macro environment and poor market sentiment.

For the year ended 31 December 2018, our commission and fee income from the securities brokerage business was HK$165.6 million, decreased by HK$24.7 million or 13.0% as compared with 2017.

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

	Year ended 31 December			
	2018		2017	
	HK$' million	%	HK$' million	%
Hong Kong stock	**132.0**	**79.7**	161.5	84.9
Non-Hong Kong stock	**10.2**	**6.2**	10.8	5.7
Bonds	**7.2**	**4.3**	7.4	3.9
Others	**16.2**	**9.8**	10.6	5.5
	165.6	**100.0**	190.3	100.0

Our margin financing business includes offering collateralised financing relating to securities transactions to both retail and institutional customers.

During the Year, the number of our margin client accounts continued to grow. The monthly average loan balance remained at high level until end of the Year, interest income from margin loans for the year ended 31 December 2018 was HK$417.5 million, increased by HK$83.8 million or 25.1% as compared with 2017.

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

	2018	2017
Number of margin accounts	**7,961**	6,657
Balance of gross margin loans (HK$' million)	**4,009.0**	6,444.8
Monthly average balance (HK$' million)	**5,950.6**	4,994.0
Highest month end balance (HK$' million)	**6,640.8**	6,444.8
Lowest month end balance (HK$' million)	**4,009.0**	4,836.8
Margin value (HK$' million) *(note 1)*	**3,871.0**	5,146.9
Market value (HK$' million) *(note 2)*	**17,349.0**	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 2018 , there were a total of 218 new listings in Hong Kong, including the transfer of listing from GEM to Main Board. The number of new listings has increased by 25.3% as compared with 2017. The aggregate amount of funds raised was HK$286.5 billion, increased by 122.9% as compared with 2017.

In 2018, we have completed 2 IPO sole sponsorship projects, and 38 equity securities underwriting and debt issuance projects, successfully assisted corporations in raising US$13.1 billion in aggregate.

For the year ended 31 December 2018, our commission and fee income from corporate finance and underwriting services was HK$59.9 million as compared to HK$154.1 million 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, specialised 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 31 December 2018, the total amount of AUM was approximately HK$24,810.9 million, representing a decrease of approximately 8.6% from HK$27,137.9 million as at 31 December 2017. For the year ended 31 December 2018, asset management and advisory fee income was approximately HK$82.1 million which comprised of management fee income of HK$72.8 million and advisory fee income of HK$9.3 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 public listing in the capital markets in Hong Kong, mainland China or overseas. 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 prices of bonds and preference shares, we shift our resources allocation from fixed-income investment to structured finance with high-quality underlying assets, in order to mitigate the market risks and strengthen the control of collaterals through tailor-made structures.

For the year ended 31 December 2018, interest income from loans and advances was HK$79.6 million, representing a substantial increase of approximately 121.3% as compared to HK$36.0 million in 2017. Proprietary trading income was HK$587.5 million which represented a significant increase of approximately 62.7% from HK$361.1 million in 2017.

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

	2018		2017	
	HK$' million	%	HK$' million	%
Fixed income securities	**3,699.5**	**57.0**	5,241.0	72.0
Bonds	**1,750.7**	**27.0**	3,119.2	42.9
Preference shares	**1,891.4**	**29.1**	2,062.3	28.3
REIT(s)	**57.4**	**0.9**	59.5	0.8
Equity investments	**159.2**	**2.4**	1.6	0.0
Equity-linked loan	**440.3**	**6.8**	–	–
Funds	**2,192.3**	**33.8**	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 2018, we were awarded as one of the top 10 teams in "Asiamoney" Institutional Poll, "Best Broker Research Award" by Phoenix and "Chief Economist of the Year" by BRICKS Media. As at 31 December 2018, our research team was composed of more than 40 strategic and industry analysts and professional staff in Hong Kong, Beijing and Shanghai, covering around 150 companies listed in Hong Kong, Mainland China and New York across various sectors.

During the Year, our research team further enhanced its research capacity through a series of upgrade and optimisation projects, which reinforced its leading position in 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 year ended 31 December 2018, the Group's total revenue and other income was approximately HK$1,484.3 million, representing an increase of approximately 21.6% over HK$1,220.5 million in 2017.

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

	Year ended 31 December			
	2018		2017	
	HK$'million	%	HK$'million	%
Brokerage	**186.3**	**12.6**	208.5	17.1
Corporate finance and underwriting	**59.9**	**4.0**	155.2	12.7
Asset management and advisory	**82.0**	**5.5**	101.0	8.3
Margin financing	**417.5**	**28.1**	333.7	27.3
Investment and loans	**690.9**	**46.6**	405.0	33.2
Others	**47.7**	**3.2**	17.1	1.4
Total	**1,484.3**	**100.0**	1,220.5	100.0

The Group's profit for the year ended 31 December 2018 was approximately HK$411.0 million, representing an increase of approximately 1.9% over HK$403.5 million in 2017.

Operating expenses

Operating expenses and finance costs for the year ended 31 December 2018 amounted to HK$1,061.9 million (2017: HK$785.4 million), an analysis of which is listed below:

	Year ended 31 December			
	2018		2017	
	HK$'million	%	HK$'million	%
Commission and brokerage expenses	**53.0**	**5.0**	75.2	9.6
Finance costs	**352.2**	**33.2**	133.0	16.9
Staff costs	**361.7**	**34.1**	276.8	35.3
Depreciation	**8.8**	**0.8**	8.7	1.1
Other operating expenses	**306.9**	**28.9**	211.3	26.9
Change in impairment allowance	**(20.7)**	**(2.0)**	80.4	10.2
Total	**1,061.9**	**100.0**	785.4	100.0

Due to decrease in brokerage revenue, commission and brokerage expenses also decreased accordingly.

Finance costs increased by 164.8% due to the upward adjustment of the base rate and the increase in monthly average of investment and loan balances.

Staff costs increased by 30.7% as a result of investment in human resources.

Depreciation was relatively stable.

Other operating expenses increased by 45.2% mainly due to investing administrative expenses.

Change in impairment allowance 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 31 December 2018 decreased by HK$1,276.3 million to HK$594.0 million (31 December 2017: HK$1,870.3 million).

The Group's net current asset increased by HK$8,072.8 million to approximately HK$9,351.3 million as at 31 December 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 6.4 times as at 31 December 2018 (31 December 2017: 1.1 times).

As at 31 December 2018, the Group had borrowings of HK$6,423.9 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 31 December 2018, the Group's gearing ratio was 118.3% (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 maximise returns.

Material Acquisitions and Disposals

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

Significant Investments Held

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

Charges on Group Assets

As at 31 December 2018, there was no charge on Group assets (31 December 2017: HK$430.4 million).

Capital Commitments

As at 31 December 2018, the Group had no significant capital commitment.

Employees and Remuneration Policies

As at 31 December 2018, the Group had a total of 329 employees. Total staff costs amounted to approximately HK$361.7 million for the year ended 31 December 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 31 December 2018, the Group had certain contingent liabilities arising in the ordinary course of business. Please see Note 39 to the consolidated financial statements of this annual 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 31 December 2018, the Company utilised approximately 91.6% 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 31 December 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 year (HK$'million)	Utilised amount as at 31/12/2018 (HK$'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	55.9	59.2	128.7
5. Attract and retain talent as well as optimising human resources structure	187.9	33.5	124.5	158.0	29.9
6. Working capital and general corporate purposes	187.9	187.9	–	187.9	–
Total	1,879.2	1,368.0	352.6	1,720.6	158.6

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
China CITIC Bank International Limited
OCBC Wing Hang Bank Limited
Dah Sing Bank
Agricultural Bank of China, Hong Kong Branch
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.

BOARD OF DIRECTORS

Executive Directors

TAN Yueheng, aged 56, is the Chairman and an Executive Director of the Company. He was appointed as a Director of the Company in February 2007 and the Vice Chairman of the Company in June 2007. Since July 2016, he has served as the Chairman of the Company. In October 2016, he was re-designated as an Executive Director of the Company. Prior to joining the Group, Mr. TAN served as the deputy general manager of Jiang Nan Finance Limited from 1997 to 2002, deputy general manager of CMB International Capital Corporation Limited from 1997 to 2002, director of Great Wall Securities Limited from 1998 to 2002, deputy general manager of China Merchants Finance Holdings Company Limited from 2002 to 2007, the chairman of the Supervisory Board of China Merchants Securities Co., Ltd. from 2003 to 2007 and a non-executive director of China Merchants Bank from 2004 to 2007.

Mr. TAN graduated from Hunan Institute of Finance and Economics with a bachelor's degree in Finance in July 1983. He also obtained a master's degree in Economics, with a major in Money and Banking from the Graduate School of the People's Bank of China in July 1986 and a doctorate degree in Economics from the Graduate School of Chinese Academy of Social Sciences in December 1989. Mr. TAN is a member of the Chinese People's Political Consultative Conference Gansu Provincial Committee. Mr. TAN was the chairman of the Chinese Securities Association of Hong Kong from March 2015 to February 2019, and he has been the permanent honorary chairman since February 2019.

LI Ying, aged 47, is the President and an Executive Director of the Company. He joined the Group in January 2015 and was appointed as a Director of the Company in June 2015. In October 2016, he was re-designated as an Executive Director of the Company. Prior to joining the Group, Mr. LI served as the deputy chief executive officer and a director of ICBC International Holdings Limited from 2009 to 2014. From 1998 to 2009, Mr. LI held various positions in the head office of the Industrial and Commercial Bank of China, including deputy general manager of the joint-stock reform office and deputy general manager of the department of corporate strategy and investor relationship.

Mr. LI graduated from the School of Finance of Renmin University of China with a bachelor's degree in Economics in July 1993 and obtained a master's degree in Economics from the same university in July 1995. He also received a doctorate degree in Economics from Renmin University of China in June 1998.

CHENG Chuange, aged 54, is the Deputy Chief Executive Officer and an Executive Director of the Company. He joined the Group in July 2007 and was appointed as the Deputy Chief Executive Officer in March 2010 and as a Director of the Company in June 2010. In October 2016, he was re-designated as an Executive Director of the Company. Prior to joining the Group, Mr. CHENG served as a director of Concorde Securities Limited from December 2001, the deputy general manager from November 2003 and the vice president from February 2005. From 1995 to 2003, Mr. CHENG worked in various financial institutions, including participating in the setting up of Shenzhen City Commercial Bank and holding various positions in the bank since 1995; serving as the general manager in planned fund department and the assistant to the president of the Guangzhou branch of China Everbright Bank since 1997 and 1998 respectively; and participating in the establishment of the southern headquarters of Three Gorges Securities Company Limited from November 2000 to November 2001 and serving as the general manager of the southern headquarters from September 2001 to September 2003.

Mr. CHENG graduated from Zhengzhou University in the PRC with a bachelor's degree in Philosophy in June 1987. He obtained a master's degree in Philosophy from Wuhan University in July 1990 and a doctorate degree in Economics from Wuhan University in December 1997. He obtained the qualification of senior economist in November 1999.

Non-executive Directors

WANG Yijun, aged 47, is a Non-executive Director of the Company. Mr. WANG was appointed as a Director of the Company in June 2015 and he was re-designated as a Non-executive Director of the Company in October 2016. He has been a vice president of Finance College of BOCOM, the deputy general manager of human resources department of BOCOM and the general manager of education and training department of BOCOM since January 2019. He has been a director of Bank of Communications Financial Leasing Co., Ltd. since June 2015, the general manager of the strategic investment department of BOCOM from July 2015 to January 2019, the chairman of the supervisory board of Bank of Communications Schroder Fund Management Co., Ltd. since July 2015, the chairman of the supervisory board of BoComm Life Insurance Company Limited since November 2016 and the director of China BOCOM Insurance Company Limited since June 2018.

Mr. WANG joined BOCOM in July 1994. He was the deputy officer of the general office of BOCOM from October 2003 to June 2004. He was the deputy officer (from June 2004 to February 2006), senior manager (from February 2006 to October 2007), assistant general manager (from October 2007 to January 2010) and deputy general manager (from January 2010 to January 2012) of the corporate affairs department of BOCOM. He also served as the deputy general manager of the investment banking department of BOCOM from January 2012 to July 2013 and the vice president of the Jiang Su Branch of BOCOM from July 2013 to April 2015. He was the general manager of the investment management department of BOCOM from April 2015 to July 2015.

Mr. WANG graduated from Shanghai University of International Business and Economics (formerly known as Shanghai Institute of Foreign Trade) in the PRC with a bachelor's degree in International Trade in July 1994. He received a master's degree in Business Administration from a joint programme by the University of Hong Kong and Fudan University in July 2001.

LIN Zhihong, aged 50, is a Non-executive Director of the Company. Ms. LIN was appointed as a Director of the Company in November 2014 and she was re-designated as a Non-executive Director of the Company in October 2016. She has been the general manager of the financial budget department (data and management information center) of BOCOM since November 2013.

Ms. LIN joined BOCOM in July 1990. She was the deputy officer (from January 2000 to June 2003) and the officer (from June 2003 to December 2004) of the finance and accounting department of BOCOM. She was the senior manager (budget management) of the financial budget department of BOCOM from December 2004 to August 2007. She was the deputy general manager of the financial budget department from August 2007 to July 2013.

Ms. LIN graduated from Shanghai Jiao Tong University in the PRC with a Bachelor's degree in Finance in July 1998. She received a master's degree from the EMBA programme by Shanghai University of Finance and Economics in October 2010.

SHOU Fugang, aged 57, is a Non-executive Director of the Company. Mr. SHOU was appointed as a Director in August 2007 and he was re-designated as a Non-executive Director of the Company in October 2016. He has been a director of BCOM Finance (Hong Kong) Limited since August 2000, the chief executive of BCOM Finance (Hong Kong) Limited since September 2007 and the chairman of China BOCOM Insurance Company Limited since November 2010.

Mr. SHOU joined BOCOM in July 1987. He was the deputy officer (from July 1994 to November 1996) and officer (from November 1996 to November 1999) of the international banking department of BOCOM. He was the deputy general manager of the overseas business department of BOCOM from November 1999 to February 2000, the deputy general manager of BOCOM (Hong Kong Branch) from February 2000 to July 2007, the chief executive of BOCOM (Hong Kong Branch) from July 2007 to August 2017 and the chairman of Bank of Communications (Hong Kong) Limited from April 2017 to February 2019.

Mr. SHOU graduated from Fudan University in the PRC with a bachelor's degree in Political Economics in July 1984. He received a master's degree in Political Economics from Fudan University in July 1987 and a master's degree in Business Administration jointly awarded by Northwestern University and Hong Kong University of Science and Technology in May 2004.

Independent Non-executive Directors

TSE Yung Hoi, aged 66, is an Independent Non-executive Director of the Company. Mr. TSE was appointed as an Independent Non-executive Director of the Company in June 2014. He is also currently the chairman of BOCI-Prudential Asset Management Limited. He was the deputy chief executive officer of BOC International Holdings Limited from 2002 to 2012, the deputy general manager of the investment management department and the deputy general manager of the trading department of the head office of Bank of China from 1998 to 2002.

Mr. TSE is an independent non-executive director of Guoan International Limited (formerly known as "Global Tech (Holdings) Limited") (stock code: 00143), HJ Capital (International) Holdings Company Limited (formerly known as "iOne Holdings Limited") (stock code: 00982), Vico International Holdings Limited (stock code: 01621), China Tower Corporation Limited (stock code: 00788), DTXS Silk Road Investment Holdings Company Limited (stock code: 00620) (abovementioned companies are listed on the Stock Exchange) and Well Link Bank. He was an independent non-executive director of Huarong International Financial Holdings Limited (stock code: 00993) (which is listed on the Stock Exchange) from October 2015 to June 2016.

Mr. TSE graduated from Fudan University in the PRC with a bachelor's degree in English in July 1975. He was awarded the Bronze Bauhinia Star by the HKSAR government in July 2013. He is also the Life Honourary President of the Chinese Securities Association of Hong Kong and a member of the 12th Chinese People's Political Consultative Conference Shanghai Committee.

MA Ning, aged 46, is an Independent Non-executive Director of the Company. Mr. MA was appointed as an Independent Non-executive Director of the Company in October 2016. He has served as a managing partner of Tibet Lingfeng Venture Investment Partnership since August 2015, and he held various positions with Beijing Gao Hua Securities Company Limited and served as the deputy general manager and managing director from May 2010 to June 2015. From August 2002 to April 2010, he held various positions with and served as a managing director of Goldman Sachs (Asia) L.L.C.. He also worked at the People's Bank of China (head office) from August 1996 to July 2002 where he was involved in devising policies and regulating the non-bank financial institutions in the PRC.

Mr. MA graduated from Renmin University of China with a bachelor's degree in Economics in July 1993. He obtained a master's degree in International Finance from the Graduate School of the People's Bank of China in February 1996 and a master's degree in Business Administration from London Business School in August 2002.

LIN Zhijun, aged 64, is an Independent Non-executive Director of the Company. Mr. LIN was appointed as an Independent Non-executive Director of the Company in October 2016. Mr. LIN is an independent non-executive director of CITIC Dameng Holdings Limited (stock code: 1091), China Everbright Limited (stock code: 0165), Sinotruk (Hong Kong) Limited (stock code: 3808), Springland International Holdings Limited (stock code: 1700) and Dali Foods Group Company Limited (stock code: 3799), which are companies listed on the Stock Exchange.

He has served as vice president of the Macau University of Science and Technology since March 2018, the dean of the Business School of the Macau University of Science and Technology since January 2015. Mr. Lin was appointed as an associate vice president of the Macau University of Science and Technology from February 2017 to March 2018 and had held various positions in the School of Business of Hong Kong Baptist University (from September 1998 to December 2014), at the School of Business of the University of Hong Kong (from September 1996 to June 1998) and the Faculty of Management at the University of Lethbridge, Canada (from August 1990 to August 1998).

Mr. LIN obtained a master's degree in Economics (accounting) from Xiamen University in December 1982 and a doctorate degree in Economics in December 1985. He also obtained a master's degree in Business Administration from University of Saskatchewan, Canada in October 1991. He became a member of the American Institute of Certified Public Accountants since August 1995 and the Chinese Institute of Certified Public Accountants since June 1995. He is also a Chartered Global Management Accountant (CGMA) and a Certified Management Accountant (CMA) of Australia.

SENIOR MANAGEMENT

The Executive Directors are also members of the senior management. Please refer to the biographies of the Executive Directors set out above.

XI Xuanhua, aged 46, is a Deputy Chief Executive Officer of the Company and a member of the Executive Committee. Ms. XI was appointed as a Deputy Chief Executive Officer of the Company and a member of the Executive Committee in July 2017. Ms. XI joined the Group in August 2005 and has held various positions in the Company. She was a director and head of China sales desk from 2005 to 2007, the executive director and head of China sales department from 2007 to 2009, the managing director and head of equity sales department from 2009 to 2013 and the managing director and head of institution and equity business from 2013 to 2015. Ms. XI has been the Managing Director and General Manager of BOCOM International Securities from March 2015 to July 2017. Immediately prior to joining the Group in August 2005, Ms. XI was an associate director of the China Sales of ICEA Securities Limited.

Ms. XI graduated from Fudan University in the PRC with a bachelor's degree in Economics in July 1995. She also obtained an EMBA from Shanghai Jiao Tong University in June 2012.

SU Fen, aged 47, is a Deputy Chief Executive Officer of the Company and a member of the Executive Committee. Mr. Su was appointed as a Deputy Chief Executive Officer of the Company and a member of the Executive Committee in July 2018. Mr. SU held various positions in the Foreign Exchange Department, the Credit Management Department and the Marketing Department of BOCOM (Guangzhou Branch) from 1994 to 2000. In 2001, he was made the Deputy General Manager of the Marketing Department of BOCOM (Guangzhou Branch). From 2002 to 2007, Mr. SU was relocated to work in the Credit Department of BOCOM (New York Branch) as the Deputy Manager and later the Manager. From 2007 to 2010, Mr. SU was the Senior Manager (Merger and Acquisition) of the Investment Management Department of BOCOM. In 2010, Mr. SU became the Director of the Integrated Management Department of Bank of Communications Schroder Fund Management Co., Ltd.. In 2011, he was promoted to the position of Chief Compliance Officer of Bank of Communications Schroder Fund Management Co., Ltd. and had assumed such role until joining the Group in July 2018.

Mr. SU graduated from Guangdong University of Foreign Studies (formerly known as Guangzhou Institute of Foreign Languages) in the PRC with a bachelor degree of Arts in 1994. He also obtained a master's degree in Business Administration from the Bernard M. Baruch College of the City University of New York in 2007.

Report of the Directors

The Board is pleased to present its report together with the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

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, 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.

A list of the Company's principal subsidiaries as of 31 December 2018 and their particulars (including principal activities) are set out in Note 18 to the consolidated financial statements.

BUSINESS REVIEW

An analysis of the Group's principal activities by operating segments for the Year is set out in Note 5 to the audited consolidated financial statements.

A fair review of the Group's business, an analysis using financial key performance indicators, an indication of likely future developments in the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of 2018 are set out in the "Management Discussion and Analysis" on pages 7 to 15. The above sections form part of this Report of the Directors.

RESULTS AND DIVIDEND

The results of the Group for the Year are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 81 to 82.

The Directors recommended the payment of a final dividend of HK$0.08 per Share to the Shareholders whose names appear on the register of members of the Company on 21 June 2019. Subject to the approval of the Shareholders at the forthcoming Annual General Meeting of the Company, the proposed final dividend is expected to be paid on or about 5 July 2019.

FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 3 of this annual report.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 11 June 2019 to 14 June 2019 (both dates inclusive), for the purpose of determining the entitlements of the Shareholders to attend and vote at the forthcoming annual general meeting to be held on 14 June 2019, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 10 June 2019.

CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT OF FINAL DIVIDEND

The register of members of the Company will be closed on 21 June 2019, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend during which period no transfer of the Shares may be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 20 June 2019. Shares of the Company will be traded ex-dividend as from 19 June 2019.

MAJOR CUSTOMERS AND SUPPLIERS

The revenue attributable to the five largest customers of the Group accounted for less than 30% of the Group's total revenue for the Year.

The Group is a provider of financial services. In the opinion of the Board, it is of no value to disclose details of the Group's suppliers.

DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in Note 42 to the consolidated financial statements and in the consolidated statement of changes in equity on page 85 of this annual report, respectively.

As at 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Ordinance, amounted to HK$588,901,000.

DONATIONS

During the Year, the Group made charitable donations amounting to HK$23,300.

SHARE CAPITAL

Details of the Shares issued by the Company are set out in Note 34 to the consolidated financial statements for the year ended 31 December 2018.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float of not less than 25% of the Company's issued Shares as required under the Listing Rules as at the date of this annual report.

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 year ended 31 December 2018.

DIRECTORS

The directors of the Company during the year ended 31 December 2018 and up to the date of this annual report are:

Executive Directors
TAN Yueheng
LI Ying
CHENG Chuange

Non-executive Directors
WANG Yijun
LIN Zhihong
SHOU Fugang

Independent Non-executive Directors
TSE Yung Hoi
MA Ning
LIN Zhijun

Pursuant to the Articles of Association, Mr. TSE Yung Hoi, Ms. LIN Zhihong and Mr. LI Ying will retire by rotation at the 2019 Annual General Meeting, and being eligible, offer themselves for re-election.

The directors of the Company's subsidiaries during the Year and up to the date of this annual report are Mr. TAN Yueheng, Mr. LI Ying, Mr. CHENG Chuange, Ms. XI Xuanhua, Mr. SU Fen, Ms. CHOI Suet Yin, Mr. LI Wu, Mr. WANG Dong, Mr. LIU Yingjie, Ms. MA Yuan, Mr. JIANG Ying.

CHANGE OF INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Mr. TAN Yueheng ceased to be the chairman of the Chinese Securities Association of Hong Kong and has been the permanent honorary chairman since 25 February 2019.

Mr. WANG Yijun has been a vice president of Finance College of BOCOM, the deputy general manager of human resources department of BOCOM, the general manager of education and training department of BOCOM and ceased to be the general manager of the strategic investment department of BOCOM since 23 January 2019.

Mr. SHOU Fugang ceased to be the chairman of Bank of Communications (Hong Kong) Limited since 27 February 2019.

Mr. SU Fen, a Deputy Chief Executive Officer, was appointed as director of BOCOM International Asset Management with effect from 2 January 2019.

Save as disclosed above, there is no other information that is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Biological information of Directors and Chief Executives are set out on pages 17 to 21.

DIRECTORS' SERVICE CONTRACTS

Each Director has entered into a letter of appointment in relation to his/her role as a director of the Company.

Save as disclosed above, none of the Directors has entered into any service contracts with any member of the Group which is not determinable by the Company (or other member of the Group) within one year without payment of compensation (other than statutory compensation).

PERMITTED INDEMNITY

The Articles of Association, subject to the Companies Ordinance, provides that every Director, company secretary or other officer of the Company shall be indemnified by the Company against all expenses and liabilities incurred by him/her in the execution and discharge of his/her duties.

The Company has arranged for appropriate insurance policies for Directors' and officers' liabilities in respect of legal actions that may be brought against them, and such insurance policies were in force during the Year and as of the date of this Report of the Directors.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Company during the Year or subsisted at the end of the Year.

DIRECTORS' INTEREST IN COMPETING BUSINESSES

The Non-executive Directors, Mr. WANG Yijun, Ms. LIN Zhihong and Mr. SHOU Fugang, have certain directorships, executive roles and/or positions in the BOCOM Group.

The Articles of Association requires each Director to declare his/her interests in transactions or proposed transactions with the Group which may be in conflict with his/her duties or interests as a Director. In addition, the Group has implemented adequate internal approval and monitoring procedures in relation to continuing connected transactions to ensure that the interests of the Shareholders as a whole are safeguarded.

Save as disclosed above, none of the Directors is interested in any businesses apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the Group's business.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Details of the continuing connected transactions and material related party transactions are set out in this Report of the Directors and Note 36 to the consolidated financial statements, respectively.

Save as disclosed above, no transaction, arrangement or contract that is significant in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a person who at any time in the Year was a Director or any entity connected with such a Director had, directly or indirectly, a material interest subsisted at any time during the Year or at the end of the Year.

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

As at 31 December 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	2,000,000	0.07
XI Xuanhua	Beneficial owner	1,000,000	0.04

Long Positions in shares of associated corporation – 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	120,000	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	60,000	0.00	0.00

Save as disclosed above, as at 31 December 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' RIGHT TO ACQUIRE SHARES OR DEBENTURES

For the year ended 31 December 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 31 December 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 to 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 31 December 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.

INDEPENDENCE OF THE GROUP FROM THE BOCOM GROUP

The Company and BOCOM (Hong Kong Branch) have entered into a referral agreement dated 25 April 2017 (the "Referral Agreement") pursuant to which BOCOM (Hong Kong Branch) has undertaken to refer to the Group for its consideration to undertake all margin financing for secondary market transactions of existing and new customers of BOCOM (Hong Kong Branch), except margin financing for secondary market transactions of private banking customers of BOCOM (Hong Kong Branch).

On 29 January 2018, the Bank of Communications (Hong Kong) Limited (Merger) Ordinance (Chapter 1182 of the Laws of Hong Kong) (the "Ordinance") has become effective. Pursuant to the Ordinance, the existing activities, assets and liabilities which constitute the retail banking business and private banking business of BOCOM (Hong Kong Branch) have been transferred to Bank of Communications (Hong Kong) Limited in accordance with the requirements of the Ordinance. Due to the aforementioned transfer and in light of the spirit underlying the Referral Agreement, on 29 January 2018, the Company and Bank of Communications (Hong Kong) Limited entered into a referral agreement (the "Further Referral Agreement") pursuant to which Bank of Communications (Hong Kong) Limited has undertaken to refer to the Group for its consideration to undertake all margin financing for secondary market transactions of existing and new customers of Bank of Communications (Hong Kong) Limited, except margin financing for secondary market transactions of private banking customers of Bank of Communications (Hong Kong) Limited. The key terms of the Further Referral Agreement are the same as those of the Referral Agreement except that Bank of Communications (Hong Kong) Limited instead of BOCOM (Hong Kong Branch) is a party to the Further Referral Agreement.

Bank of Communications (Hong Kong) Limited has confirmed to the Company that it has complied with the terms of the Further Referral Agreement for the year ended 31 December 2018 and (if applicable) provided all relevant information as reasonably requested by the Independent Non-executive Directors for their annual review.

In addition to the annual confirmation provided by Bank of Communications (Hong Kong) Limited, BOCOM (Hong Kong Branch) has also provided to the Company a confirmation regarding its compliance with the terms of the Referral Agreement for the year ended 31 December 2018 and (if applicable) provided all relevant information as reasonably requested by the Independent Non-executive Directors for their annual review.

Based on the confirmation and information (where applicable) provided by BOCOM (Hong Kong Branch) and Bank of Communications (Hong Kong) Limited, the Independent Non-executive Directors are not aware of any non-compliance with the terms of the Referral Agreement and Further Referral Agreement by BOCOM (Hong Kong Branch) and Bank of Communications (Hong Kong) Limited, respectively during the Year.

CONTINUING CONNECTED TRANSACTIONS

The following transactions constituted continuing connected transactions under the Listing Rules during the year ended 31 December 2018:

(a) Financial Services Framework Agreement

The Company entered into a financial services framework agreement with BOCOM (the "Financial Services Framework Agreement") on 25 April 2017 to govern the existing and future provision of financial services between the Group and the BOCOM Group with effect from the Listing Date.

Under the Financial Services Framework Agreement, the Group provides the following financial services to the BOCOM Group:

i. securities brokerage settlement and subscription of new shares

ii. investment advisory and management services

iii. underwriting, sponsoring, securities issuance and advisory services

Under the Financial Services Framework Agreement, the BOCOM Group provides the following financial services to the Group:

i. deposit services

ii. customer referral services

iii. fund product distribution services

iv. miscellaneous banking and financial services

The Financial Services Framework Agreement provides that the provision of financial services by the Group to the BOCOM Group and by the BOCOM Group to the Group must be (i) in the ordinary and usual course of business of the Group and the BOCOM Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better to the Group, (iv) on terms no less favourable than those offered by the BOCOM Group to independent third parties for similar or comparable transactions (in respect of provision of financial services by the BOCOM Group to the Group) and on terms no less favourable than those offered by the Group to independent third parties for similar transactions (in respect of the provision of financial services by the Group to the BOCOM Group), (v) in accordance with the specified pricing policies and (vi) in compliance with, among other things, the Listing Rules and applicable laws and regulations.

The Financial Services Framework Agreement expires on 31 December 2019 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months' prior written notice or otherwise in accordance with the terms of the Financial Services Framework Agreement.

The annual caps in respect of the transactions contemplated under the Financial Services Framework Agreement for the two years ended/ending 31 December 2018 and 2019 and the respective actual amount received/paid in 2018 are as follows:

	Annual Cap for the year ended/ ending 31 December 2018 (HK$ million)	Annual Cap for the year ended/ ending 31 December 2019 (HK$ million)	Actual Amount for the year ended 31 December 2018 (HK$ million)
Revenue received by the Group from the BOCOM Group	130.7	151.0	47.3
Fees and commissions paid by the Group to the BOCOM Group	40.0[Note]	51.1[Note]	13.4

Note:

On 18 December 2017, the Board resolved to revise the original annual caps as set out in the Prospectus representing the aggregate fees and commissions to be paid by the Group to the BOCOM Group in respect of certain financial services provided by the BOCOM Group to the Group under the Financial Services Framework Agreement for the three years ended/ending 31 December 2017, 2018 and 2019 from HK$15.0 million, HK$17.7 million and HK$20.9 million to HK$17.3 million, HK$40.0 million and HK$51.1 million respectively. Please refer to the announcement dated 18 December 2017 for further details.

(b) Derivatives Transactions Framework Agreement

The Company entered into a derivatives transactions framework agreement with BOCOM (the "Derivatives Transactions Framework Agreement") on 25 April 2017 to govern all existing and future derivatives transactions between the Group and the BOCOM Group, with effect from the Listing Date. The derivatives transactions include commodity derivatives transactions with the BOCOM Group at specified prices and terms at the over-the-counter market and at an offshore commodity futures exchange on substantially similar prices with an insignificant spread and on otherwise identical commercial terms but in the opposite direction.

The Derivatives Transactions Framework Agreement provides that the derivatives transactions between the Group and the BOCOM Group must be (i) in the ordinary and usual course of business of the Group and the BOCOM Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better to the Group, (iv) on terms no less favourable than those offered by the BOCOM Group to independent third parties for similar or comparable derivatives transactions and (v) in compliance with, among other things, the Listing Rules and applicable laws and regulations.

The Derivatives Transactions Framework Agreement expires on 31 December 2019 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months' prior written notice or otherwise in accordance with the terms of the Derivatives Transactions Framework Agreement.

The annual caps in respect of the transactions contemplated under the Derivatives Transactions Framework Agreement for the two years ended/ending 31 December 2018 and 2019 and the respective actual amount received/paid in 2018 are as follows:

	Annual Cap for the year ended/ ending 31 December 2018	2019	Actual Amount for the year ended 31 December 2018
	(HK$ million)		
Trading Gains or Losses to the Group Note	81.3	92.9	7.4
Maximum Fair Value Recorded as Financial Assets	75.5	90.6	3.1
Maximum Fair Value Recorded as Financial Liabilities	75.5	90.6	2.0

Note:

This does not include the trading gains or losses arising from the derivatives transactions in opposite directions to be entered into by the Group at offshore commodity futures exchanges (which do not constitute continuing connected transactions of the Company).

(c) Property Leasing Framework Agreement

The Company entered into a property leasing framework agreement with BOCOM (the "Property Leasing Framework Agreement") on 25 April 2017 to govern the leasing of properties by the Group from the BOCOM Group with effect from the Listing Date.

The Property Leasing Framework Agreement provides that all the leasing transactions must be (i) in the ordinary and usual course of business of the Group and the BOCOM Group, (ii) on an arm's length basis, (iii) on normal commercial terms or better to the Group, (iv) at rentals determined by reference to the prevailing market rents and on terms no less favourable than those offered by the BOCOM Group to independent third parties for similar or comparable properties at the relevant locations and (v) in compliance with, among other things, the Listing Rules and applicable laws and regulations.

The Property Leasing Framework Agreement expires on 31 December 2019 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months' prior written notice or otherwise in accordance with the terms of the Property Leasing Framework Agreement.

The maximum amount of the rental payable by the Group to the BOCOM Group for the lease of properties from the BOCOM Group for the years ended/ending 31 December 2018 and 2019 will not exceed HK$10.0 million. The actual rent paid by the Group to the BOCOM Group in 2018 was HK$9.3 million.

Confirmation of Independent Non-executive Directors

The Independent Non-executive Directors have reviewed the above continuing connected transactions and confirmed that:

(i) the above continuing connected transactions have been entered into in the ordinary and usual course of business of the Group;

(ii) the above continuing connected transactions have been entered into on normal commercial terms or better; and

(iii) the above continuing connected transactions have been entered in accordance with relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Confirmation of auditor

The auditor of the Company has reviewed the above continuing connected transactions and confirmed that:

(i) nothing has come to its attention that causes it to believe that the continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to its attention that causes it to believe that the continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;

(iii) nothing has come to its attention that causes it to believe that the continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(iv) with respect to the aggregate amount of the continuing connected transactions, nothing has come to its attention that causes it to believe that such continuing connected transactions have exceeded the annual cap as set by the Company.

The related party transactions in respect of items denoted with "*" as disclosed in Note 36 to the consolidated financial statements constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and the Company has complied with the applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules in relation to the connected transactions and continuing connected transactions conducted during the year ended 31 December 2018.

ENVIRONMENTAL AND SOCIAL MATTERS

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the Year are set out in the section headed "Corporate Social Responsibility Report" on pages 48 to 71 of this annual report.

Discussions on the Group's environmental policies and performance and the account of the Group's key relationships with its employees, customers and suppliers are contained in the "Corporate Social Responsibility Report" on pages 48 to 71 of this annual report. The above discussions form part of this Report of the Directors.

COMPLIANCE WITH LAWS AND REGULATIONS

The major laws and regulations that have a significant impact on the Group's business include the Companies Ordinance, the SFO, the Listing Rules and the Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance (Chapter 615 of the Laws of Hong Kong). During the year ended 31 December 2018 and up to the date of this annual report, the Group has implemented policies and procedures to ensure compliance with the relevant laws and regulations.

During the year ended 31 December 2018 and up to the date of this annual report, as far as the Board and management are aware, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that has a significant impact on the businesses and operations of the Group.

CORPORATE GOVERNANCE

The Company is committed to maintaining good corporate governance. Information on the corporate governance principles and practices adopted by the Company is set out in the "Corporate Governance Report" section of this annual report.

EVENT AFTER THE YEAR UNDER REVIEW

Please refer to the details set out in Note 45 to the consolidated financial statements.

INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 December 2018 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as independent auditor of the Company will be proposed at the annual general meeting.

By order of the Board
TAN Yueheng
Chairman and Executive Director

Hong Kong, 26 March 2019

Corporate Governance Report

The Company is committed to generating long-term value for Shareholders by maintaining good corporate governance and promoting transparency and accountability. The Company has adopted corporate governance guidelines and established risk management and internal control processes to achieve effective corporate governance and to monitor, evaluate and manage the principal risks assumed by the Group in its ordinary course of business.

CORPORATE GOVERNANCE PRACTICES

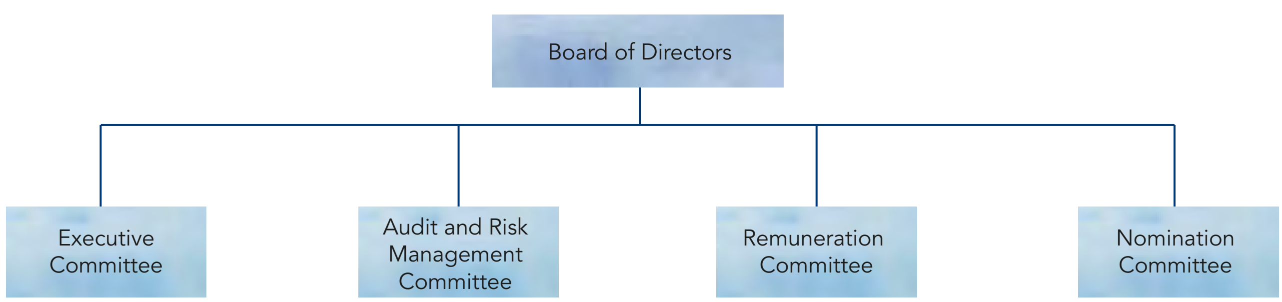
The Company has adopted the Corporate Governance Code of the Listing Rules as its own code of corporate governance. During the year ended 31 December 2018, save as disclosed in this report, the Company has complied with all the code provisions set out in the Corporate Governance Code.

COPORATE GOVERNANCE FRAMEWORK

THE BOARD

Roles and Responsibilities of the Board and the senior management

The Board oversees the overall business and affairs of the Group. It sets the overall strategy and long-term objectives of the Group. The Board is also responsible for establishing the risk management and internal control policies, assessing the effectiveness of internal control systems of the Group and reviewing the Group's operational and financial performance. The Board acts objectively to ensure decisions are made in the best interests of the Company. For operation efficiency, the Board has established the Executive Committee, Audit and Risk Management Committee, Remuneration Committee and Nomination Committee. Each committee has specific terms of reference setting out its authority and duties. The following diagram sets out the Company's corporate governance framework:



The daily management and administrative functions of the Group are delegated to the senior management. The matters delegated to senior management include the implementation of the corporate governance policies and the operation of the Group's business in accordance with the operating strategies as approved by the Board. The delegated functions and work tasks are reviewed regularly by the Board and clear guidance on the senior management's authority is provided. The senior management is required to report and seek approval from the Board on material decisions. The Board reviews the performance of management and ensures that management has sufficient resources to meet their objectives.

The Board is responsible for the corporate governance of the Company. The Board has formulated corporate governance policies and will review them regularly with regard to the circumstances of the Group and pursuant to the Corporate Governance Code as amended form time to time. The Board's main corporate governance duties include:

(a) to develop and review policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance applicable to employees and Directors; and

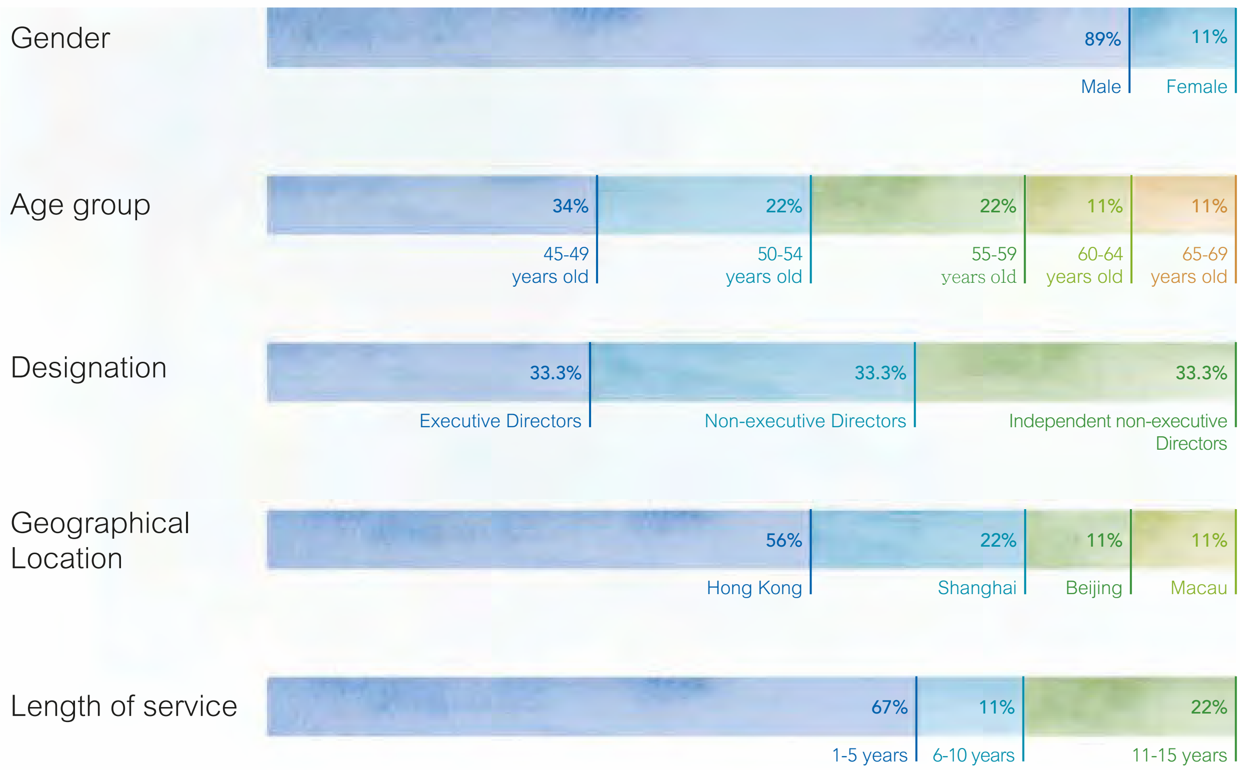
(e) to review the Company's compliance with the Corporate Governance Code and disclosure in the corporate governance report.

Chairman and Chief Executive

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 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.

Board Composition

As at 31 December 2018, the Board consists of 9 Directors, comprising 3 Executive Directors, Mr. TAN Yueheng, Mr. LI Ying and Mr. CHENG Chuange; 3 Non-executive Directors, Mr. WANG Yijun, Ms. LIN Zhihong and Mr. SHOU Fugang; and 3 Independent Non-executive Directors, Mr. TSE Yung Hoi, Mr. MA Ning and Mr. LIN Zhijun. The Board has an appropriate mix of expertise and experience in industry knowledge, business management and regulatory compliance and risk management to enable it to carry out its duties effectively. The Directors' biographical details are set out in the section "Biographies of Directors and Senior Management" of this annual report.



During the Year, the Company had 3 Independent Non-executive Directors representing one-third of the Board with one Independent Non-executive Director possessing appropriate professional accounting or related financial management expertise as required under Rule 3.10 of the Listing Rules.

As at the date of this report, to the best knowledge of the Board, there is no financial, business or family relationship among members of the Board or the Chief Executives.

The Company has received from each of the Independent Non-executive Directors a confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all of them are independent.

Board Diversity

The board diversity policy of the Company sets out a clear objective for the Company to ensure that its board of directors have the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and maintain the effectiveness of the Board's decision making. In order to determine a balanced board as a whole, appointments and re-election of the Board will be made on merit and factors including but not limited to gender, age, cultural and educational background, ethnicity, geographical location, professional experience, knowledge, independence, length of service and values and contributions to the Board.

The Nomination Committee will take into account the related requirements of board diversity policy of the Company in the nomination and selection of Directors. In accordance with the nomination policy of the Company, potential candidates for directorships will be sought through recommendations and external consultants, where necessary. In reviewing and recommending to the Board of any new Director appointment, the Nomination Committee will consider objective criteria including but not limited to time commitment and number of other directorships. In recommending a Director, considerations will be given to factors including but not limited to competencies, relevant experience as a director, industry experience and independence (where applicable).

The Nomination Committee reviews the board diversity policy from time to time to assess the effectiveness of the Board composition in the context of the needs of the Company's business.

Directors' Professional Training and Development

Directors participate in appropriate continuous professional trainings to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant. The Company timely provides the latest information and reading materials to Directors relating to the Listing Rules, SFO, Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance and relevant statutory and regulatory guidelines on obligations and duties of a director of a listed company. The Company also invites professionals advisers to conduct on-site intensive trainings for Directors and senior management to refresh and strengthen their knowledge of corporate governance practices and provides them with updates on the latest developments of relevant policies, rules and regulations. According to the records provided by the Directors and maintained by the Company, the training received by the Directors during the year ended 31 December 2018 is summarised as follows:

	Types of training	
Directors	Reading materials/ articles[(1)]	Attending in-house briefings/seminars/ workshops/forums/ conferences[(2)]
Executive Directors		
Mr. TAN Yueheng	✓	✓
Mr. LI Ying	✓	✓
Mr. CHENG Chuange	✓	✓
Non-executive Directors		
Mr. WANG Yijun	✓	✓
Ms. LIN Zhihong	✓	✓
Mr. SHOU Fugang	✓	✓
Independent Non-executive Directors		
Mr. TSE Yung Hoi	✓	✓
Mr. MA Ning	✓	✓
Mr. LIN Zhijun	✓	✓

Notes:

(1) Materials/articles, newspapers and journals on updates on relevant statutory and regulatory requirements, business and market changes, developments on financial and economic environment, environmental, social and governance reporting and amendments to the Listing Rules.

(2) In-house briefings/seminars/workshops/forums/conferences related to topics including financial reporting, responsibilities and continuing obligations of directors.

Board Meetings and Board Committees Meetings

The Board is scheduled to meet at least four times a year to discuss the Group's business development, operation and financial performance. At least 14 days' advance notice is given for all regular Board meetings to give all Directors an opportunity to attend and to include matters for discussion in the agenda. The articles of association of the Company provides for the Board meetings and Board committee meetings to be held by way of electronic means of communication. All Directors are provided with meeting agenda and board papers at least three days before the meetings. The Directors have access to the management for enquiries and to obtain further information, and when required, seek independent professional advice at the Company's expense. Minutes of meetings are kept by the company secretary. All Directors have been provided with monthly updates ensuring them informed of the Group's performance and developments and facilitate them to discharge their duties.

The attendance records of Directors at Board and Board committee meetings for the year ended 31 December 2018 are set out as follows:

	No. of Meetings Attended/Held				
Name of Directors	Board	Executive Committee	Audit and Risk Management Committee	Remuneration Committee	Nomination Committee
Executive Directors					
Mr. TAN Yueheng	4/4	39/39	–	–	1/1
Mr. LI Ying	4/4	36/39	–	–	–
Mr. CHENG Chuange	4/4	32/39	–	–	–
Non-executive Directors					
Mr. WANG Yijun	4/4	–	–	–	1/1
Ms. LIN Zhihong	4/4	–	3/3	–	–
Mr. SHOU Fugang	4/4	–	–	2/2	–
Independent Non-executive Directors					
Mr. TSE Yung Hoi	4/4	–	3/3	2/2	1/1
Mr. MA Ning	4/4	–	–	2/2	1/1
Mr. LIN Zhijun	4/4	–	3/3	2/2	1/1

Note:

Decisions at Board meetings and committee meetings are made by vote. Directors with material interests in matters were not involved in discussions and abstained from voting on the relevant resolutions.

During the Year, Board meetings were held for, among other things, discussion and approval of re-appointment of auditor, approval of the annual results of the Group for the year ended 31 December 2017, the 2017 annual results announcement and the 2017 annual report and the interim results of the Group for the six months ended 30 June 2018, the 2018 interim results announcement and the 2018 interim report; discussion and approval of annual assets allocation plan; review of operation management and risk management reports, budget execution and planning reports and continuing connected transactions; recommendation of final dividend; review of effectiveness of risk management and internal control systems as well as remuneration incentive policy. In addition, the Board also reviewed and approved the appointment of new deputy chief executive officer.

During the Year, the Chairman met once with the Non-executive Directors and Independent Non-executive Directors without the presence of other Executive Directors to exchange views and recommendations on the business management and strategic development of the Group.

Appointment and Re-election of Directors

Each Director has entered into a letter of appointment with the Company for a term of three years. In accordance with the Articles of Association, one-third of the Directors for the time being or, if the number is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation. The Directors to retire every year will be those who have been longest in office since their last re-election or appointment and will be eligible for re-election at the annual general meeting of the Company.

All Directors to be appointed or re-elected will be assessed and recommended by the Nomination Committee to the Board.

Directors' Securities Transactions

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 during the year ended 31 December 2018 in response to specific enquiry made by the Company.

Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover in respect of legal actions taken against its Directors and officers. The insurance coverage will be reviewed on an annual basis ensuring that the Directors and officers are adequately protected against potential legal liabilities.

BOARD COMMITTEES

Executive Committee

The primary duty of the Executive Committee is to consider and approve various matters in relation to the Group's day-to-day operations including but not limited to transactions in relation to various businesses of the Group and certain corporate actions within their respective specified limits of authority thresholds. Currently, the Executive Committee comprises 5 members, namely, Mr. TAN Yueheng (Chairman), Mr. LI Ying, Mr. CHENG Chuange, all of whom are Executive Directors, and Ms. XI Xuanhua and Mr. SU Fen, both of whom are Deputy Chief Executive Officers of the Company. During the year ended 31 December 2018, the Executive Committee held 39 meetings.

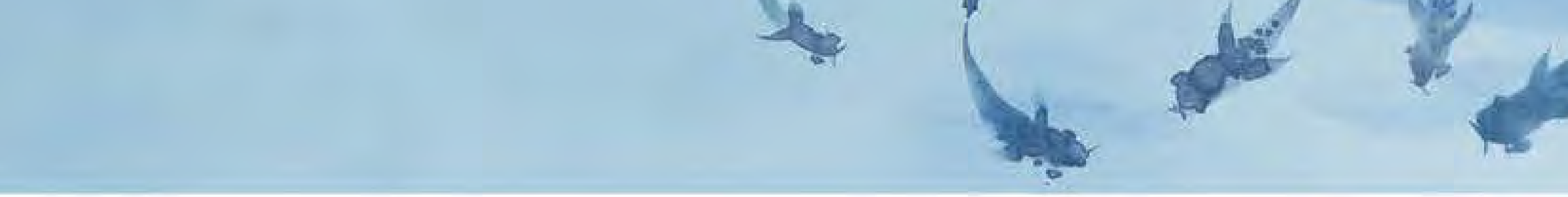
Audit and Risk Management Committee

The primary duties of the Audit and Risk Management Committee are to oversee the financial reporting system, risk management and internal control systems of the Group, review the financial information of the Group and consider issues relating to the external auditor and its appointment. Currently, the Audit and Risk Management Committee comprises 3 members, namely, Mr. LIN Zhijun (Chairman), Mr. TSE Yung Hoi, both of whom are Independent Non-executive Directors, and Ms. LIN Zhihong, a Non-executive Director.

For the year ended 31 December 2018, the Audit and Risk Management Committee held 3 meetings. The Audit and Risk Management Committee reviewed, among other things, (i) the annual results of the Group for the year ended 31 December 2017, the 2017 annual results announcement and the 2017 annual report; (ii) the interim results of the Group for the six months ended 30 June 2018, the 2018 interim results announcement and the 2018 interim report; (iii) the effectiveness of the Group's risk management and internal control systems; and (iv) re-appointment of auditor.

Remuneration Committee

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management and on the establishment of formal and transparent procedures for developing remuneration policies, and make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. The Remuneration Committee comprises 4 members, namely, Mr. TSE Yung Hoi (Chairman), Mr. MA Ning, Mr. LIN Zhijun, all of whom are Independent Non-executive Directors, and Mr. SHOU Fugang, a Non-executive Director.



For the year ended 31 December 2018, the Remuneration Committee held 2 meetings. The Remuneration Committee discussed and reviewed the Company's annual bonus and related matters, remuneration and incentive policy. In addition, the Remuneration Committee also reviewed the remuneration of new deputy chief executive officer.

Nomination Committee

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, assess the independence of the Independent Non-executive Directors and make recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors. The nomination of Directors shall be made in accordance with the criteria set in the nomination policy, including but not limited to structure, size and composition of the Board; succession planning for Directors and other senior executives; independence of Independent Non-executive Directors; the Group's need for leaders; and time and effort devoted by the Directors in discharge of duties, with due regard for the benefits of board diversity, as set out under the board diversity policy of the Company.

The Nomination Committee comprises 5 members, namely, Mr. TAN Yueheng (Chairman), an Executive Director, Mr. WANG Yijun, a Non-executive Director, Mr. TSE Yung Hoi, Mr. MA Ning and Mr. LIN Zhijun, all of whom are Independent Non-executive Directors.

For the year ended 31 December 2018, the Nomination Committee held 1 meeting. The Nomination Committee discussed and reviewed the existing structure of the Board, Directors' performance, diversity of the Board, independence of Independent Non-executive Directors and re-election of directors. In addition, the Nomination Committee also reviewed the appointment of new deputy chief executive officer.

JOINT COMPANY SECRETARIES

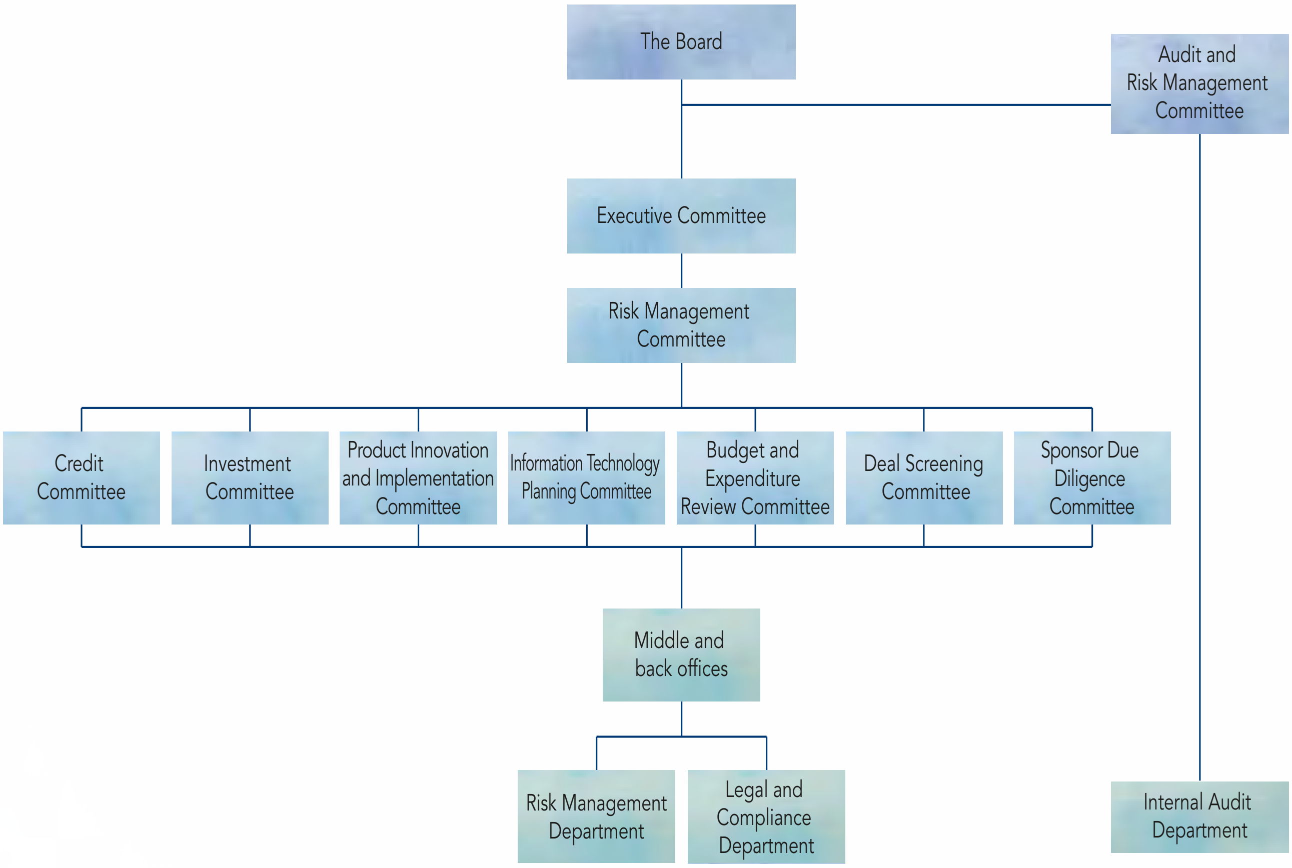
The Company has appointed Ms. YI Li and Ms. KWONG Yin Ping Yvonne as joint company secretaries. Ms. YI is an employee of the Company and is familiar with the affairs of the Group. By virtue of her academic background and experience, Ms. YI is capable of discharging her duty as a company secretary but she currently does not possess the qualifications under Rule 3.28 of the Listing Rules. Accordingly, the Company has appointed Ms. KWONG, a vice president of SWCS Corporate Services Group (Hong Kong) Limited (a corporate service provider), who satisfies the requirements under Rules 8.17 and 3.28 of the Listing Rules, as another joint company secretary of the Company for a term of three years from the Listing Date to provide assistance to Ms. YI in discharging her duties and responsibilities as a joint company secretary and acquiring the relevant experience as required under the Listing Rules. Ms. KWONG's primary contact person at the Company is Ms. YI.

Each of Ms. YI and Ms. KWONG has taken no less than 15 hours of the relevant professional training during the Year.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company has committed to upholding good corporate governance and established comprehensive risk management and internal control processes to monitor, evaluate and manage the principal risks assumed in the ordinary course of the Group's business. The Group strives to reduce the uncertainties related to its business strategies, seeks to achieve a balance between business development and risk management efficiency, and proactively build its risk management culture into every level of the Group.

The Group has established a three-tier risk management structure consisting of (i) the Board; (ii) a risk management committee and special committees and (iii) the relevant middle and back offices in charge of the execution of risk management. The following chart illustrates our risk management framework:



The Board is responsible for establishing the Group's overall risk management framework, overseeing the Group's risk management processes, reviewing and approving the Group's risk management and internal control policies and strategies, and assessing the effectiveness of the Group's risk management and internal control systems. The risk management committee is the decision-making body of risk management. Its primary responsibilities include: (i) reviewing risk management objectives of the Group according to the risk management strategies determined by the Board and senior management, and formulating overall policies, tactics and management procedures regarding overall risk management; (ii) determining risk mitigation plans for major risk management events, and monitoring the implementation of the risk management systems, rules and procedures at each line of responsibility within the Group; (iii) assessing periodically the Group's overall risk management performance, risk tolerance level and the effectiveness of the internal control policies of the Group; and (iv) supervising the special committees under its auspices in their respective risk management work. Mr. TAN Yueheng, the Chairman and Executive Director, serves as the Chairman of the risk management committee.

The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company has implemented various risk management and internal control measures to manage the risks associated with the business activities of the Group. The internal audit department of the Group is responsible for auditing and examining the effectiveness and implementation of the risk management procedures and conducting an overall evaluation of the risk management systems of the Group. The Audit and Risk Management Committee and the Board with the assistance of the senior management, have conducted a review of the effectiveness of the Group's risk management and internal control systems for the Year, covering all material controls including financial, operational and compliance controls. The Board acknowledges that it is responsible for the risk management and internal control systems of the Group and considers that such systems are effective and adequate.

CONSTITUTIONAL DOCUMENTS

The amended Articles of Association were adopted on 25 April 2017 and have taken effect on the Listing Date.

SHAREHOLDERS' RIGHTS AND COMMUNICATION WITH SHAREHOLDERS

Annual General Meetings

The Company recognises the importance of timely disclosure of information, which will enable Shareholders and investors to make informed investment decisions. The annual general meetings provide opportunity for the Shareholders to communicate directly with the Directors. The Company encourages the Shareholders to attend the annual general meetings of the Company. The Directors and Chairman of each of the Audit and Risk Management Committee, Remuneration Committee, Nomination Committee (or a delegated member of the Committee), as well as the Chairman of the independent board committee (if any) and member of senior management will normally attend the annual general meeting of the Company to answer queries about the Group's business. Directors of the Company, namely, Mr. TAN Yueheng, Mr. LI Ying, Mr. CHENG Chuange, Mr. WANG Yijun, Ms. LIN Zhihong, Mr. SHOU Fugang, Mr. TSE Yung Hoi and Mr. LIN Zhijun attended the annual general meeting held on 15 June 2018.

The circulars for the annual general meeting will be distributed to all Shareholders at least 20 clear business days before the meeting. All voting of the resolutions at the general meeting will be taken by poll pursuant to the Listing Rules and the poll results will be published on the Company's website and the Stock Exchange's website. The corporate communication with Shareholders will be posted on the Stock Exchange's website (www.hkexnews.hk) and the Company's website (www.bocomgroup.com) for Shareholders' information.

The Company has adopted a shareholders' communication policy to ensure that Shareholders can timely and equally access to reasonable and/or understandable information of the Company.

Dividend Policy

The Board adopted a dividend policy. The Company aims to provide stable and sustainable returns to Shareholders. In recommending a dividend payment and the amount thereof, the Board will consider the results of operations, profits, financial position, cash requirements and available cash, capital expenditure and future development needs of the Group. The Board may also consider to adopt scrip dividend schemes and other appropriate alternatives to provide return to Shareholders.

The Company does not guarantee the payment of any specific amount of dividend during the specified period. The dividend payment will be subject to the Articles of Association of the Company and statutory and regulatory restrictions upon the payment of dividend. The Board reviews the dividend policy timely.

Procedures for Shareholders to Convene an Extraordinary General Meeting

According to the Companies Ordinance, one or more Shareholders representing at least 5% of the total voting rights of all members having the right to vote at general meetings of the Company may request the Directors of the Company to call a general meeting. The request must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The requisition must be authenticated by the person(s) making it and should be sent to the Company in hard copy form (by depositing at the registered office of the Company for the attention of the Board) or in electronic form (by email to ir@bocomgroup.com).

Procedures for Shareholders for Putting Forward Proposals at General Meetings

According to the Companies Ordinance, one or more Shareholders representing at least 2.5% of the total voting rights of all the members having a right to vote, or, at least 50 Shareholders who have a right to vote, may by written request require the Company to circulate resolutions which may properly be moved and are intended to be moved at an annual general meeting; and to circulate statements regarding resolutions proposed at general meetings. The requisition must be authenticated by the person(s) making it and should be sent to the Company in hard copy form (by depositing at the registered office of the Company for the attention of the Board) or in electronic form (by email to ir@bocomgroup.com).

Enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Board through the Company Secretary at the address of 10/F., Man Yee Building, 68 Des Voeux Road Central, Hong Kong. The Company Secretary shall forward the Shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to address the Shareholders' enquiries and concerns.

Shareholders should direct their questions in relation to their shareholdings to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

HANDLING OF INSIDE INFORMATION

The Company has adopted an inside information policy in accordance with the SFO and the Listing Rules to ensure the confidentiality of handling inside information and the publication of respective disclosure to the public as soon as practicable. Under this policy, the Company disseminates information to specified persons on a need-to-know basis, requires all employees who have access to the inside information to maintain strict confidentiality of the inside information until it is announced. The policy also sets out the scope of inside information and procedures and precaution measures for reporting or leakage of inside information of the Group.

EXTERNAL AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the total fees paid/payable in respect of audit and non-audit services provided to the Group by the Group's external auditor, PricewaterhouseCoopers, are set out below:

	HKD'000
Audit fee for the Group	3,100
Taxation and other advisory services	320

DIRECTORS' RESPONSIBILITY IN RELATION TO FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare the financial statements of the Group for the Year on a going concern basis, showing a true and fair view of the state of affairs of the Company and the Group, and presenting a balanced, clear and comprehensive assessment of the Group's performance and prospects. A statement by the external auditor about its reporting responsibilities is set out in the Independent Auditor's Report.

Corporate Social Responsibility Report

ABOUT CORPORATE SOCIAL RESPONSIBILITY REPORT

This report is the corporate social responsibility report issued by the Group. It aims to set out the principles and sustainable development performance of the Group in fulfilling its corporate social responsibility in 2018 and respond to important issues of concern to key stakeholders. Please see "Corporate Governance Report" of this annual report or visit the official website of BOCOM International (http://www.bocomgroup.com) for details of the Group's corporate governance.

Basis of Preparation

This report has been prepared in accordance with the principles of materiality, quantitative, balance and consistency as set out in Appendix 27 Environmental, Social and Governance Reporting Guide (the "Guide") under the Listing Rules. This report is in compliance with the "comply or explain" provisions set out in the Guide, and describes the environmental and social impacts arising from business and operating activities of the Group.

Scope of Report

Unless specified otherwise, the scope of disclosure of this report covers the businesses directly controlled by the Group in Hong Kong (excluding the mainland businesses of the Group in the PRC). The time range is from 1 January 2018 to 31 December 2018 (the "Reporting Period").

Opinion

We value your feedback on this report. If you have any enquiries or valuable suggestions for this report, please feel free to contact us by:

Email: ir@bocomgroup.com
Address: 9/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong

SUSTAINABLE DEVELOPMENT OBJECTIVES

BOCOM International is committed to creating a large and vibrant international integrated financial services institution with PRC background in the region. While developing its business, BOCOM International also seeks to concurrently fulfil its environmental and social responsibilities and continuously promote sustainable development of the Group.

BOCOM International adheres to the original intention of creating sustainable value for all stakeholders in four major areas, and is constantly pursuing its further goals.

Steady Management

- Safeguarding compliance operations, seizing market opportunities, continuously optimising products and services, and enhancing customer experience

Care for Employees

- Creating a work environment full of humanistic care and building an efficient and collaborative elite team

Care for the Community

- Supporting community growth, with the aim of promoting social sustainable development

Care for the Environment

- Committed to reducing the environmental impact of business operations, supporting green finance business and comprehensively enhancing the environmental performance of the Group

ENVIRONMENTAL, SOCIAL AND GOVERNANCE SYSTEM

In order to further promote the sustainable development work of BOCOM International and to implement the concept of sustainable development throughout the Group's daily operations, BOCOM International formulated the Administrative Measures for Environmental, Social and Governance ("ESG") Task Force, which aims to clarify the ESG Task Force structure, and specify the responsibilities of various departmental members and reporting procedures for sustainable development work.

Among which: the Board is fully responsible for the Group's ESG strategies and reporting. The ESG Task Force consists of a senior management (as ESG Task Force leader) and representatives of other relevant functional departments. In daily operation, the ESG Task Force performs its duties in accordance with the Administrative Measures for ESG Task Force, and regularly submits reports to the Board.

The major duties of ESG Task Force include:

- to assist the Board in identifying and evaluating the Group's ESG-related risks, including identifying key stakeholders and determining material issues, and assisting in the establishment of appropriate and effective ESG risk management and internal control systems to improve the Group's ESG performance;

- to prepare and submit an annual corporate social responsibility report to the Board for approval and ensure that the report meets regulatory requirements; and

- to assist in reviewing the environmental and social performance of the Group and propose improvement plans.

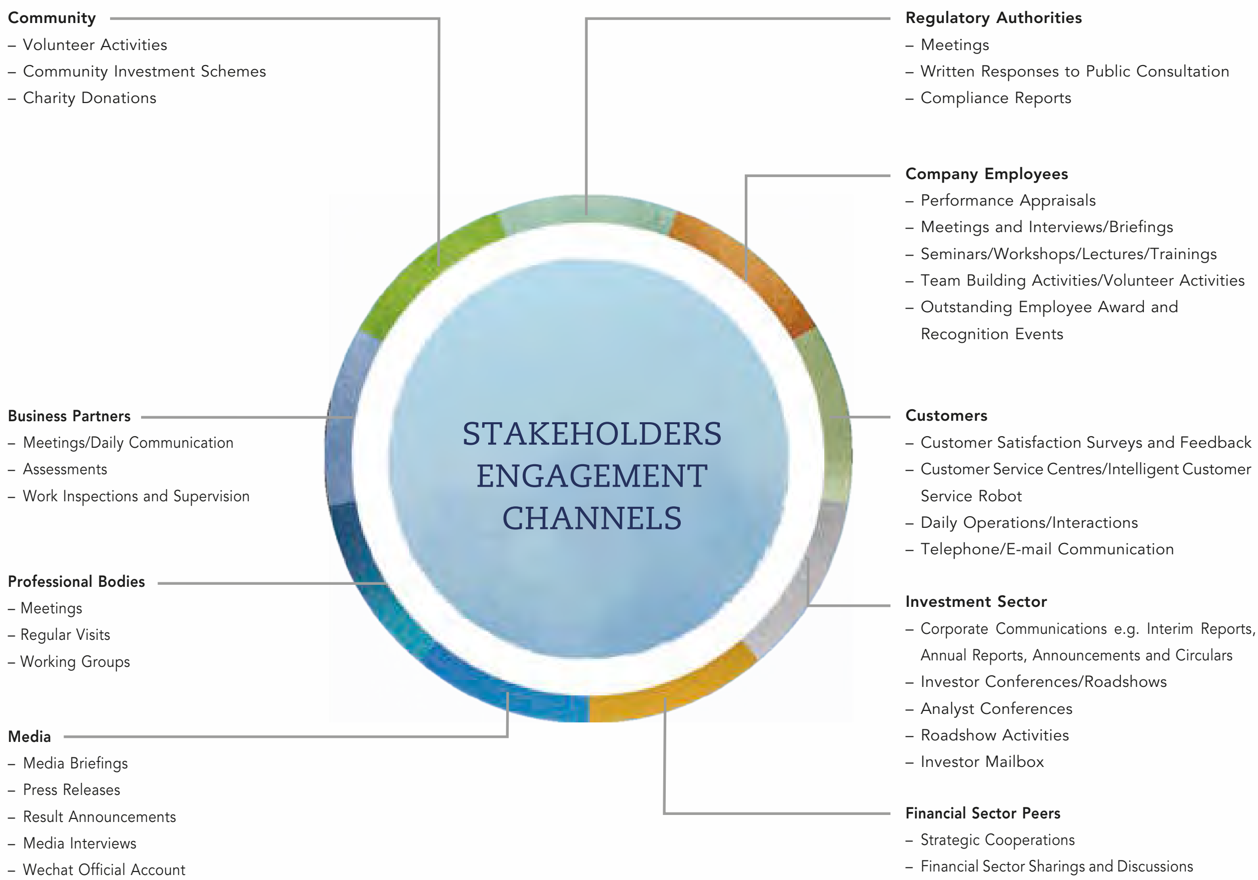
During the Reporting Period, the Group conducted an ESG-related training for Directors and senior management; and an ESG Task Force meeting to discuss matters related to the 2018 BOCOM International ESG disclosure.

STAKEHOLDER ENGAGEMENT AND IMPORTANCE ASSESSMENT

In order to achieve sustainable corporate development, we understand that we must maintain sufficient communication with our stakeholders and understand their concerns and expectations so that we can more objectively examine the problems that need to be addressed and solved by the Group when developing, managing and implementing sustainable development strategies. In the past year, we have upheld the spirit of mutual interaction, and communicated with internal and external stakeholders through various channels. The following are the main steps of our engagement with key stakeholders and importance assessment during the Reporting Period:

Step 1: Identify Key Stakeholders and Establish Daily Communication Mechanisms

The ESG Task Force of BOCOM International referred to "How to Prepare an ESG Report" issued by the Hong Kong Stock Exchange in 2018 and identified the key stakeholders by assessing "the degree of influence on enterprises" and "the degree of influence of enterprises"; at the same time, we actively communicate with stakeholders through a variety of daily communication channels.



Step 2: Key Stakeholders Identify Sustainable Development Issues

In order to meet the expectations of various stakeholders regarding the Group and render more specificity to this report, the BOCOM International ESG Task Force preliminarily identified 26 sustainable development issues related to the Group, and invited key stakeholders mentioned in Step 1, including company employees, customers, investment sector, business partners, media and financial sector peers, to participate in this materiality evaluation through questionnaires.

Step 3: Verify and Review Issues of Importance

By analysing the evaluation of sustainable development issues by different stakeholders, the Group has selected 14 important ESG issues. The Company's ESG Task Force conducted in-depth discussions on relevant important issues to ensure compliance with the Group's sustainable development strategies, and the details will be disclosed in the subsequent sections of this report.

MATERIAL ISSUES

Economic

- Anti-Money Laundering and Counter-Terrorist Financing
- Protecting Personal Data and Privacy of Clients
- Optimise Financial Services
- Risk Management and Internal Control
- Anti-corruption and Bribery
- Maintain and Protect Intellectual Property Rights

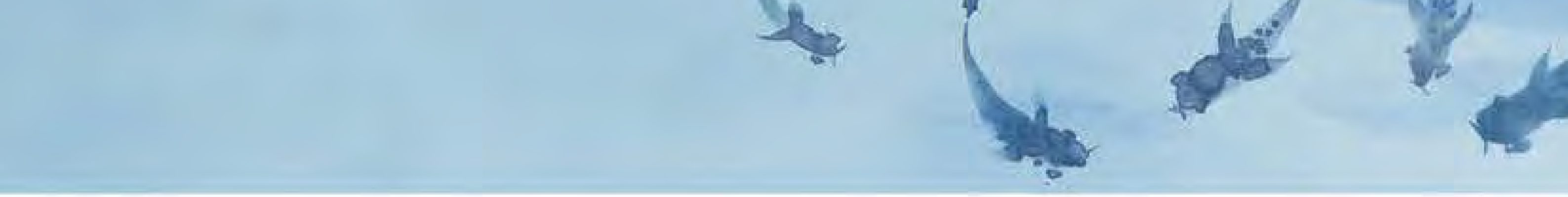
Social

- Employee Benefits and Welfare
- Employee Development and Training
- Occupational Health and Safety
- Equal Opportunity
- Supplier Management

Environmental

- Green Office Measures
- Waste Disposal and Recycling
- Utilisation and Application of Resources

* The above topics are ranked in order of importance according to the stakeholders survey results



STEADY MANAGEMENT AND PURSUIT OF EXCELLENCE

BOCOM International is one of the earliest licensed securities firms with PRC background in Hong Kong. It has undergone many economic and industry cycles and experienced various regulatory reforms. We always adhere to the principles of honesty and integrity, and are committed to the pursuit of excellent service quality. We rely on our long-established customer base, extensive brand recognition and industry expertise to leverage our competitive strengths, in order to enhance customer loyalty and continuously create value for our customers and shareholders.

Anti-Money Laundering and Counter-Terrorist Financing

As an international financial institution, BOCOM International is determined to eliminate any money laundering and terrorist financing activities, and regards the fight against them as the joint responsibility of all employees. We have formulated an internal "Measures for Anti-Money Laundering and Counter-Financing of Terrorism" with reference to the Securities and Futures Commission's Guideline on Anti-Money Laundering and Counter-Financing of Terrorism. It aims to raise awareness of anti-money laundering and terrorist financing among employees and maintain a high degree of alertness within the Group so that we can make judgement on any suspicious transactions and report them promptly.

In order to promptly detect and effectively prevent money laundering and terrorist financing activities, the Group's Legal and Compliance Department provides training for employees every year to learn the latest revisions of regulatory requirements and ensures that employees have the relevant knowledge and solutions. Employees of the Group must fully understand their responsibilities under the law, including the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, the Drug Trafficking (Recovery of Proceeds) Ordinance, the Organised and Serious Crimes Ordinance, the United Nations (Anti-Terrorism Measures) Ordinance, the United Nations Sanctions Ordinance, etc., and are responsible for reporting any suspected crimes. The Company has also employed compliance officers and money laundering reporting officers and established a system to supervise the anti-money laundering and counter-terrorist financing system in all respects and monitor the effectiveness of the system continuously, and where necessary, impose stricter controls and procedures. For suspicious transactions, the money laundering reporting officers will act as the central contact point to monitoring the compliance of such transactions to ensure compliance with laws and regulations.

Protecting Personal Data and Privacy of Clients

The Company's Information Technology Department formulated a Cybersecurity Awareness Manual in accordance with the Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading published by the Securities and Futures Commission of Hong Kong to provide clear guidelines on identifying and responding to cybersecurity risks. During the Reporting Period, the Company's Information Technology Department conducted two rounds of network security awareness training which demonstrated our efforts in protecting the interests of customers and the security of the network ecological environment.

During the Reporting Period, the Group has strictly abided by the Personal Data (Privacy) Ordinance and formulated Information Security Policy. The Information Security Policy clearly indicates the purposes of customer data collection, usage of customer data, restrictions on disclosure and methods of storing customer data, amongst other matters.

To further enhance the information security management of the Group, we formulated the Rules of Document Filing and Access outlining clear guidelines and restrictions on storage and access to customers' account opening documents and personal data updates. Only the relevant departments, the Operation Department, the Legal and Compliance Department and the Risk Management Department have the authority to access customers' information. General employees can only obtain customers' personal information from the data base with the approval of their department heads. We require employees to be responsible for maintaining the confidentiality of confidential information or special data provided by customers and business partners. Such information shall not be disclosed to third parties or made publicly available prior to obtaining relevant departments' consent. When an employee leaves the company, their rights to access the information system must be terminated immediately to prevent corporate and customer information from being disclosed. The Group guarantees that all users' access rights are reviewed regularly at least every year to ensure the reasonableness of the access rights settings.

Optimise Financial Services

With the wide-spread application of emerging technologies in the financial industry, BOCOM International combines finance and technology with innovative financial products and service models, to improve customer experience and provide customers with better and more professional financial services. During the Reporting Period, the Group accelerated the advancement of financial technology and seamlessly integrated it into our business, in response to the full range of needs of different customer groups.

BOCOM International launched Intelligent Customer Service Robot

On 21 November 2018, BOCOM International took the lead to launch the intelligent customer service robot system - exclusive intelligent robot "B". The exclusive intelligent robot "B" was launched online to provide tailor-made personalised service 24 hours a day. The intelligent customer service robot system is flexible in configuration and can be applied to various scenarios. It can understand precisely and handle different types of customer questions, and study customer data in an in-depth way during use, improving continuously the accuracy of answers, enhancing interaction with customers, thereby presenting thoughtful life-like service.

Also, we have launched two-factor authentication procedure and an intelligent morphological analysis system to provide customers with more scientific investment research reference and personalised services through continuous optimisation of mobile phones and online trading platforms with artificial intelligence and big data.

While optimising our services, we carefully listen to our customers' opinions and thoughts and actively solve different problems for them, as well as improve and raise the quality standards of our services. We have provided customers with various channels for enquiries and complaints. Customers may contact our customer service centre via various means including phone calls, facsimiles and emails.

The Company has also formulated standard procedures for handling customer complaints, ensuring that customer complaints, whether they are oral or written, will be handled timely and appropriately. Employees must promptly report to their department heads upon receiving a complaint. The head of the department which received the complaint will investigate the relevant matters accordingly. The Legal and Compliance Department will also further review and investigate the specific complaints and respond to the customers in a timely manner.

RISK MANAGEMENT AND INTERNAL CONTROL

BOCOM International consistently maintained a good corporate governance and has adopted established risk management and internal control processes. Please refer to the "Risk Management and Internal Control" section of the "Corporate Governance Report" section of this annual report for the details; please refer to "Environmental, Social and Governance System" of this report for the environmental, social and governance management structure of the Group. BOCOM International was awarded the "Corporate Governance Awards" by Capital Weekly in 2018, which reflects the market's recognition of the Group's corporate governance.

BOCOM International was awarded the "Corporate Governance Awards 2018"

Anti-corruption and Bribery

BOCOM International operates its business activities with honesty, integrity and fairness. Our employees and licensed representatives (including brokers) must comply with the Code of Conduct for Persons Licensed by or Registered with the SFC, the Corporate Finance Advisor Code of Conduct and the SFO. We performed our duties strictly and upheld our work ethics. In line with the Prevention of Bribery Ordinance and the Independent Commission Against Corruption Ordinance, the Group formulated the Practice for the Prevention of Bribery for internal use. We clearly prohibit employees from engaging in any form of corruption and bribery activities, such as giving or receiving cash and expensive gifts. Any gifts given or received must be recorded by colleagues in the department and submitted to the relevant responsible officers for their approval. Any behaviour that is controversial or may result in bribery must be reported in detail to the Legal and Compliance Department prior to the giving or the receiving.

During the Reporting Period, the Group has complied with the Prevention of Bribery Ordinance strictly and has not received any lawsuits regarding corruption.

Maintain and Protect Intellectual Property Rights

BOCOM International attaches great importance to the protection and management of intellectual property rights and safeguards the intellectual property interests of the Group and third parties. The Group purchases genuine software from official channels, and employees must obtain authorised software in accordance with the established application procedures in their daily work. According to the Regulations on Software Licenses and Copyrights in the Group's Information Security Policy, any software installed on servers and computers must have a genuine computer software license. All licensed software is managed by the Information Technology Department. All software shall not be copied except as expressly permitted by the license terms. All programs originating from external sources (including the Internet) which are available for download may not be acquired and installed without the approval of the employee's business department and the Information Technology Department.

In addition, the Group also pays attention to protection of its own domain name and ensures that the domain names in Mainland China and Hong Kong are registered and updated timely. As of 2018, the Group had successfully applied for 8 domain names. In the future, we will continue to enhance the development and procedural systems for intellectual property management, and effectively promote the development of intellectual property management.

Supplier Management

Through our business cooperation with suppliers, we hope to mutually influence each others and jointly contribute to the environment and society. The Group has formulated the Regulations on the Purchase and Management of Equipment, which establishes a fair and transparent code for suppliers' selection and management to minimise environmental and social risks in the supply chains.

In assessing suppliers, the Group values its commitment to and performance of its environmental and social responsibilities and incorporates the following factors into the assessment of suppliers:

- Operational Compliance – compliance with laws, regulations and regulatory practices
- Labour Standards – protection of workers' rights and interests
- Health and Safety – ensuring a safe working environment
- Environmental protection – prevention of pollution and fulfilling environmental responsibilities

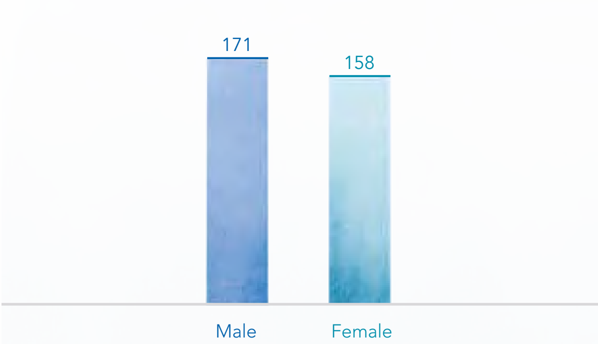
GATHERING TALENTS, CARING FOR EMPLOYEES

Talent is one of the core elements of business and social development. With a talented team as the development foundation, BOCOM International is committed to creating a work environment full of humanistic care and building an efficient and collaborative elite team to combine the personal development of employees with the development of the Company.

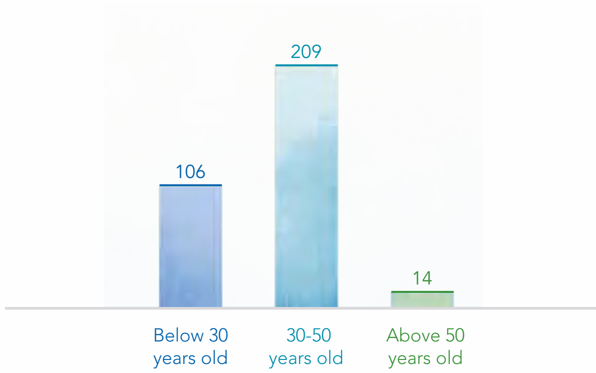
During the Reporting Period, the Group has strictly complied with various Hong Kong laws including the Employment Ordinance, the Employees' Compensation Ordinance, the Minimum Wage Ordinance, the Mandatory Provident Fund Schemes Ordinance. The Group also complied with the PRC Labor Law and PRC Labor Contract Law and other relevant laws and regulations to protect the legitimate rights and interests of the employees of the Group. In order to manage employees' organisational behaviour, optimise labour relations and improve corporate management standards, the Human Resources Department of the Group has developed the Human Resources Management System, which aims to regulate matters including recruitment and dismissal, promotion and training, compensation and benefits, as well as work attendance.

The number of employees by gender, age group and geographical region are as follows:

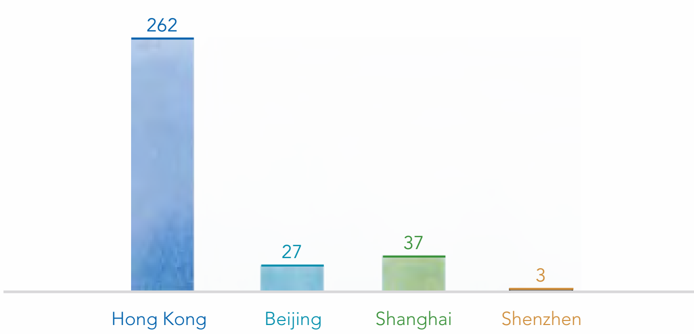
Number of employees by gender



Number of employees by age group



Number of employees by geographical region



Employee Welfare and Protection

In order to build a stable elite work force, we attach great importance to the welfare and protection of employees to attract and retain talents. The Group offers competitive compensation and benefits superior to statutory requirements with reference to the current employment regulations and market conditions. We protect our employees' rights to enjoy statutory holidays and benefits such as public holidays, annual leave, statutory paid sick leave, maternity/paternity leave, and Mandatory Provident Fund Schemes. In addition, the Group has additional paid leave such as welfare sick leave, birthday leave, marriage leave and compassionate leave.

In order to reduce the burden of medical expenses for employees and provide good medical protection, we provide group medical insurance schemes for full-time employees and their immediate family members. The Group also purchases labour insurance for all employees for compensation of work injuries. If an employee has an accident at work, the Group will provide paid work-related injury leave in accordance with the Employees' Compensation Ordinance and bear the relevant medical expenses.

In accordance with the Human Resources Management System, the Group reasonably stipulates employee office hours. Due to the special factors including nature of work, scheduling and staffing of different positions, the Group has implemented flexible working hours for individual staff. During the Reporting Period, the Group has strictly complied with the statutory rest day requirements of the place of operation, and does not encourage and never forces employees to work overtime. In case of special circumstances, employees will be allowed to take another rest day.


"BOCOM Overseas Employees' Home Opening"

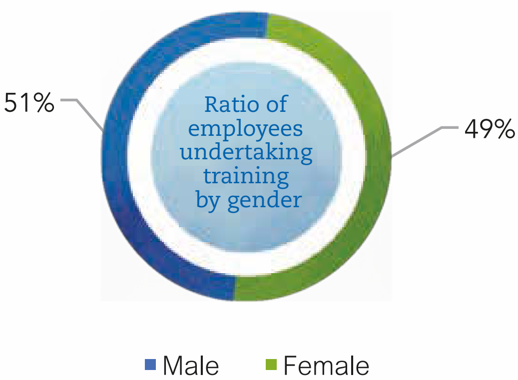
Employees are the Company's valuable assets. BOCOM International promotes work-life balance and continues to provide employees with a harmonious, diverse and friendly working environment, constantly enhancing the interaction between management and employees and facilitating the common development of the Group and its employees.

In September 2018, BOCOM's Employee Work Department, on behalf of BOCOM, set up the "Overseas Employees' Home" programme for BOCOM International and provided a special allowance, which shows that BOCOM cares and values our overseas employees. We will further enrich the employees' lives outside work and improve the work benefits of employees.

Talent Cultivation and Development

"Talent Award"

We believe employee training is essential to the business development and talent cultivation of the company. Accordingly, our Human Resources Management System encouraged us to organise or invite external professional training institutions to hold various types of programmes, subject talks and symposiums, so that employees can acquire more knowledge and skills that meet the needs of their work so as to keep abreast of the latest development in the industry to cope with the changing economic and business environment. We also established the Employee Further Studies Sponsorship Scheme to sponsor employees for professional-related courses and exams, so as to help them improve their qualifications.



The Group offered a wide range of training courses and all employees participated in relevant training during the Reporting Period. We have organised orientation training for new employees to promote integration, improve work efficiency, and further new employees' understanding of the company's corporate culture philosophy, regulatory requirements and management systems. At the same time, in order to enhance our employees' awareness of and responsibilities regarding legal compliance and professional ethics, we have organised a number of anti-bribery and anti-money laundering training sessions, and jointly organised business ethics and anti-corruption training with the Independent Commission Against Corruption of the Hong Kong Special Administrative Region.

In the future, we will further carry out various types of training activities to keep improving our employees' occupational quality, professional knowledge, teamwork and leadership amongst other skill sets.

Employee Health and Safety

The Group values the health and safety of its employees. During the Reporting Period, it has strictly complied with the Occupational Safety and Health Ordinance in Hong Kong and the Law of the PRC on the Prevention and Treatment of Occupational Diseases. We took out labour insurance, group life insurance, personal accident insurance and business travel insurance to ensure the occupational health and safety of employees to the largest extent.

Pursuant to the Employees' Compensation Ordinance, when a staff member is given a sick leave from a regular hospital or clinic because of "injury sustained during employment due to work", we will not deduct from their paid sick days to ensure adequate treatment and rest time. When encountering unavoidable natural disasters such as typhoons and rainstorms, the Group has considered the safety of employees at work and while commuting to work and has established corresponding work arrangements and contingency measures. We also attach great importance to safety education for employees, such as response plans to fire and explosions and organise regular fire drills, to ensure our employees know how to protect themselves in the event of a dangerous situation.

During the Reporting Period, the Group did not have any work-related injuries or fatalities.

In addition, in order to enhance the physical fitness of employees and strengthen the cohesiveness as a team, we organised a number of sports, autumn hiking and barbecue and other events to ensure that employees can release stress and promote physical and mental health through physical exercise.

Sports activities

Employee hiking and barbecue event in autumn

Equal Opportunity

BOCOM International is committed to providing an equal, open and inclusive work environment that eliminates discrimination based on factors such as gender, body type, race and ethnicity. During the Reporting Period, we have strictly complied with the Sex Discrimination Ordinance, the Disability Discrimination Ordinance, the Family Status Discrimination Ordinance and the Race Discrimination Ordinance. We adopt a uniform selection criteria and only consider relevant factors such as qualifications, work experience, skills of the candidates and job requirements. At the same time, the Group adopts a unified promotion criteria, which considers on-the-job performance, skills and future job requirements when assessing employees. Factors such as gender, family status, marital status, pregnancy or disability are not involved.

Before hiring new employees, the Group will investigate and confirm that employees meet the statutory working age. In addition in the case of any discrepancies or mismatches of information, we will require the prospective staff to provide a reasonable explanation. If there is no reasonable explanation, we will revoke or cancel the employment in accordance with the "reasons for termination of employment contract without notice or payment in lieu of notice" clause in strict compliance with the Employment Ordinance.

CARING FOR THE ENVIRONMENT GOING GREEN

As a company that values social responsibility, BOCOM International has always maintained a balance between achieving business development and environmental protection, and strives to be a supporter of the green environment and a builder of ecological civilisation.

Focus on air quality

We encourage employees to save energy and reduce electricity consumption as well as turn off unnecessary lighting during lunch, overtime and outside office hours. Before statutory holidays, employees are prompted to turn off all unnecessary power sources, such as photocopiers, computers and water dispensers. This has extended the product lifespan of light bulbs and various types of equipment, reduced waste generation, and reduced greenhouse gas emissions due to reduced energy consumption.

Hong Kong Headquarters Office – Greenhouse gas emissions

Greenhouse gas emissions scope	Volume of emissions in 2018
Scope 1: carbon dioxide equivalent	28.95 tonnes
Scope 2: carbon dioxide equivalent	609.88 tonnes
Scope 3: carbon dioxide equivalent	106.72 tonnes
Total volume of greenhouse gas emissions (Scopes 1, 2 & 3)	745.55 tonnes
Intensity of greenhouse gas emissions (Scopes 1, 2 & 3)	0.17 tonnes/m^2 2.27 tonnes/person

Greenhouse gas emissions of Hong Kong Headquarters Office can be divided into direct emissions (Scope 1) and indirect emissions (Scopes 2 and 3). The sources of greenhouse gas emissions under each scope are: fuel used by vehicles (Scope 1), electricity consumption during business operations (Scope 2), and the flight emissions as a result of employees' overseas business trips and paper consumption (Scope 3).

In addition to focusing on climate issues such as global warming, we also value the environmental impact of other air pollutants. During the Reporting Period, we have strictly complied with the Air Pollution Control Ordinance. The identified sources of air pollutant emissions are mainly the official vehicles used in the Hong Kong Headquarters Office.

Hong Kong Headquarters Office – Air pollutant emissions (office vehicles)

Types of air pollutant emissions	Volume of emissions in 2018
NOx emissions	3.85 kg
SOx emissions	0.16 kg
CO emissions	34.57 kg
PM2.5 emissions	0.08 kg

Green office measures

BOCOM International belongs to the financial industry and thus does not have a direct and significant impact on the environment and natural resources in its daily operations. However, we still actively promote green office related measures to achieve energy and resource savings. The following are the main energy conservation and environmental protection measures that BOCOM International implements in the daily office operations:

Saving Paper

The Group promotes a paperless working environment and encourages employees to: use electronic methods as much as possible, such as using e-mail, scanning, faxing, etc. to circulate and communicate information; reduce unnecessary color printing and use black and white photocopying more often; use double-sided photocopying and reuse recycled paper/waste paper by setting up a waste bin next to the printing machine; use spreadsheets, e-accounting systems and e-procurement systems to handle administrative matters. Through a series of measures, we aim to gradually reduce the use of printing ink and save paper.

Saving Electricity

We have posted a "turn off the lights" notice near all lighting switches to remind employees to turn off all lighting fixtures when they leave. We remind our staff to turn off all unnecessary power sources, such as photocopiers, computers, water dispensers and coffee machines before they leave and before the holidays. In addition, our cooling and warming air conditioning system is also connected to the centralised control and monitoring system (CCMS) and building management system (BMS) to enhance energy efficiency.

Saving Water

The Group purchases and installs taps with water saving labels and infrared sensors to avoid waste of water resources. We also encourage employees to save water and post water saving notices in each washroom. Due to the business nature, we are not a high water-consuming company. The water used in our office is mainly from the government's water supply system, and there is no difficulty in finding water sources.

Reasonable Use of Vehicles

The vehicles of the Group are used for accommodating clients, transportation for meetings, etc. We prefer energy-efficient fuels to reduce air pollution caused by driving the vehicles. We also regularly inspect vehicles and maintain them in a timely manner to minimise reductions in fuel efficiency caused by aging of vehicle parts. Also, we provide low-carbon driving training for our drivers and require our employees to make more appropriate arrangement for itineraries to avoid the situation of idling engines.

During the Reporting Period, the resources we consumed mainly included electricity, water resources, and gasoline fuel used in office vehicles. Since there is no separate water meter in the Hong Kong Headquarters Office, the water consumption listed in the table below is the amount of drinking water consumed by the Hong Kong Headquarters Office during the Reporting Period.

Hong Kong Headquarters Office – Resource consumption

Class	Consumption in 2018	Intensity of consumption in 2018
Fuel consumption of vehicles	10,882.00 L	1,813.67 L/vehicle
Drinking water consumption	34,001.10 L	103.35 L/person
Electricity consumption	772,004 kWh	2,346.52 kWh/person 180.18 kWh/m^2
Paper consumption	7,721.40 kg	23.47 kg/person

Waste Management

We believe waste reduction requires radical measures starting from the source, and therefore we estimate the amount needed before purchasing office stationery to avoid overstock. We prefer reusable and refillable products to eliminate the reliance on disposable and non-recyclable products.

We put up waste classification instructions in our offices to encourage employees to classify and recycle waste, such as cans, plastic, waste paper, glass bottles and other recyclable materials, and the recycled waste is then put into the central recycling bins of the office building for collection.

Recycling bins

To reduce the burden on landfills and extend the service life of electronic products, we demonstrate the spirit of valuing products and will preferentially consider donating older models of office electronic devices to charities. For non-repairable waste electrical appliances and devices, we will pass them to qualified recyclers to recycle and reuse, and ensure it is appropriately handled. For waste toner cartridges or inkjet cartridges, we will arrange for suppliers to recycle them on a regular basis. During the Reporting Period, we did not breach the Hong Kong Waste Disposal Ordinance.

Hong Kong Headquarters Office – Waste generation

Class	The amount generated in 2018	The intensity generated in 2018
Hazardous waste		
Waste fluorescent light tube	40 tubes	0.12 tube/person
Waste toner cartridges	140 cartridges	0.43 cartridge/person
Non-hazardous waste		
Waste paper	2,316.42 kg	7.04 kg/person
Non-hazardous electronic waste	5 units	0.02 unit/person

CARE FOR THE COMMUNITY, FOSTER A WIN-WIN SITUATION

BOCOM International is committed to fulfilling the responsibility of corporate citizenship and to actively promoting sustainable social development. We work with the Hong Kong Community Chest and make donations to support the communities in need, mainly investing in community development, youth and elderly services. At the same time, we have been participating in various large-scale fundraising events, such as "Hong Kong & Kowloon Walk", for many consecutive years.

BOCOM International was awarded the "President's Award"

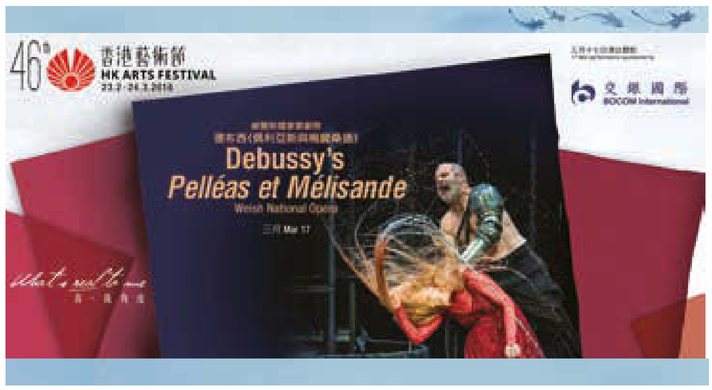
Hong Kong & Kowloon Walk in January 2018

The Hong Kong Community Chest 2017/2018 Annual Awards Ceremony was held in Hong Kong in June 2018. BOCOM International was awarded the "President's Award" for our active contribution to the cause of charity in Hong Kong.

Supporting student welfare
Visiting The North Point Kai-fong Welfare Advancement Association in September 2018

Care for the poor and homeless children and adolescents
Visiting Hong Kong Student Aid Society - Mark Memorial Home in September 2018

Caring for the disabled, promoting the Paralympic Games
In October 2018 "Visiting the Hong Kong Paralympic Committee & Sports Association



Promoting the cause of culture and arts
BOCOM International sponsoring Hong Kong Arts Festival in 2018

In addition, BOCOM International actively supported the development of the arts industry and sponsored a great number of performances in the Hong Kong Arts Festival in 2018. The Hong Kong Arts Festival is an important cultural event in the international arts industry and presented a lot of outstanding local and international artists' performances in 2018.

APPENDIX: HKEX "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE" CONTENT INDEX

Aspect	Index	Content Index	Relevant Sections/Notes
A. Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Focus on Air Quality, Waste Management
	A1.1	The types of emissions and respective emissions data	Focus on Air Quality
	A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Focus on Air Quality
	A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Waste Management
	A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Waste Management
	A1.5	Description of measures to mitigate emissions and results achieved	Green Office Measures
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Waste Management
A2: Use of Resources	General Disclosure	Policies on efficient use of resources including energy, water and other raw materials	Green Office Measures
	A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Green Office Measures
	A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility)	Green Office Measures
	A2.3	Description of energy use efficiency initiatives and results achieved	Green Office Measures
	A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved	Green Office Measures
	A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced	Not Applicable to Principal Activities

Aspect	Index	Content Index	Relevant Sections/Notes
A3: The Environment and Natural Resources	General Disclosure	Policies on minimizing the issuer's significant impact on the environment and natural resources	Green Office Measures
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	Green Office Measures
B. Social			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Gathering Talents, Caring for Employees
	B1.1	Total workforce by gender, employment type, age group and geographical region	Gathering Talents, Caring for Employees
	B1.2	Employee turnover rate by gender, age group and geographical region	Consideration for Future Disclosure
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	Employee Health and Safety
	B2.1	Number and rate of work-related fatalities	Employee Health and Safety
	B2.2	Lost days due to work injury	Employee Health and Safety
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	Employee Health and Safety
B3: Development and Training	General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of Training Activities	Talent Cultivation and Development
	B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management)	Talent Cultivation and Development
	B3.2	The average training hours completed per employee by gender and employee category	Consideration for Future Disclosure

Aspect	Index	Content Index	Relevant Sections/Notes
B4: Labor Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Equal Opportunity, Employee Welfare and Protection
	B4.1	Description of measures to review employment practices to avoid child and forced labor	Equal Opportunity
	B4.2	Description of steps taken to eliminate such practices when discovered	Equal Opportunity
B5: Supply Chain Management	General Disclosure	Policies on managing environmental and social risks of the supply chain	Supplier Management
	B5.1	Number of suppliers by geographical region	Consideration for Future Disclosure
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supplier Management
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	Protecting Personal Data and Privacy of Clients, Optimise Financial Services
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Not Applicable to Principal Activities
	B6.2	Number of products and service related complaints received and how they are dealt with	Optimise Financial Services
	B6.3	Description of practices relating to observing and protecting intellectual property rights	Maintain and Protect Intellectual Property Rights
	B6.4	Description of quality assurance process and recall procedures	Not Applicable to Principal Activities
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	Protecting Personal Data and Privacy of Clients

Aspect	Index	Content Index	Relevant Sections/Notes
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Anti-corruption and Bribery
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Anti-corruption and Bribery
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	Anti-corruption and Bribery
B8: Community Investment	General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests	Care for The Community, Foster A Win-win Situation
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Care for The Community, Foster A Win-win Situation
	B8.2	Resources contributed (e.g. money or time) to the focus area	Care for The Community, Foster A Win-win Situation

Awards

Award	Issued by
The President Award 2018	The Community Chest of Hong Kong
The 12th Jun Ding Award for Wealth Management Institution – Top China Asset Management Brokerage Award	Securities Times
The Listed Enterprise Excellence Awards – Corporate Governance Award 2018	Capital Weekly
Award in Providing Stock Futures Education 2018	The Stock Exchange of Hong Kong Limited
China Finance Golden Tie Awards – Excellent Hong Kong Securities Institution 2018	Wallstreetcn
China Finance Golden Tie Awards – Hong Kong Outstanding Wealth Management Team 2018	Wallstreetcn
Best Broker Research Award (HK) 2018	Phoenix
Best Wealth Management Customer Satisfaction Award 2018	Phoenix
The Best Financial Stock Company of 2018 Golden HK Stocks	Zhitong Finance, RoyalFlush Information
Chief Economist of the Year, 2018	BRICKS Media
No.2 Best Economist Team (HK), 2018	Asiamoney
No.3 Best Economist Team (A shares), 2018	Asiamoney
No.5 Best Analyst (Utilities) Team (HK), 2018	Asiamoney
No.6 Best Analyst (Software, Internet & Services) Team (HK), 2018	Asiamoney
No.9 Best Analyst (Banks) Team (HK), 2018	Asiamoney
No.9 Best Analyst (Diversified Financials) Team (HK), 2018	Asiamoney
No.9 Best Analyst (Real Estate) Team (HK), 2018	Asiamoney
No.10 Best Analyst (Insurance) Team (HK), 2018	Asiamoney
No.6 Best Analyst (Banks) Team (A shares), 2018	Asiamoney
No.6 Best Analyst (Diversified Financials) Team (A shares), 2018	Asiamoney
No.7 Best Analyst (Energy) Team (A shares), 2018	Asiamoney
No.3 Best Stock Picker for Real Estate (China & Hong Kong)	Thomson Reuters

Independent Auditor's Report

pwc 羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of BOCOM International Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 81 to 217, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Independent Auditor's Report (Continued)

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of margin loans to customers
- Valuation assessment of Level 3 financial instruments
- Consolidation assessment of structured entities

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of margin loans to customers Refer to Note 26 to the consolidated financial statements. The Group has adopted HKFRS 9 and revised its impairment methodology from the mandatory effective date of 1 January 2018. The restatement of the loss allowance for margin loans to customers on transition to HKFRS 9 as at 1 January 2018 was HK$71,413 thousand. As at 31 December 2018, the margin loans to customers amounted to HK$3,918,371 thousand, representing 27% of the Group's total assets. The impairment loss allowance on margin loans to customers for the year ended 31 December 2018 amounted to HK$90,671 thousand. The Group's impairment losses are now calculated based on a three-stage expected credit loss ('ECL') model, which involves significant management judgements and a number of estimated inputs in the calculation. A variety of inputs and assumptions were considered by management, including but not limited to the Group's internal default data, the profile of the underlying securities, determination criteria for significant increase in credit risks, external economic data, weightings used for economic scenarios and forward-looking information, which create uncertainties of the appropriateness and accuracy of estimating expected credit loss. The Group forecasts the credit losses that it would incur as a result of defaults under different scenarios during future periods. The amount of ECL recognised as a loss allowance depends on the extent of credit deterioration since initial recognition. Impairment assessment of margin loans to customers was considered a key audit matter due to the size of the margin loans to customers and significant management judgment involved in the impairment assessment process.	Our audit procedures in relation to the impairment assessment of margin loans to customers included: • Understanding and testing the key management controls over the approval, recording and monitoring of margin loans to customers; • Understanding and testing the controls over ECL measurement model approval and application, including the model monitoring and ECL calculation and review. • Evaluating and assessing the appropriateness of the ECL methodology applied by the management, including the model risk parameters, forward-looking information, staging analysis and impairment calculation; • Understanding and evaluating the reasonableness of the significant assumptions used by the management to develop ECL estimates, including the criteria of determining significant increase in credit risks and conducting sensitivity analysis on the weightings used for multiple economic scenarios; • Testing the data inputs to the ECL model on a sample basis to verify the data completeness and accuracy. • Assessing the existence and valuation of collaterals held for margin loans on a sample basis by examining the Group's and the clearing house's records and checking quoted market prices at year end against independent source and the liquidity of the underlying market securities with reference to the recent trading volume; • Assessing the appropriateness of impairment allowance made by the Group on margin loans in stage 3, on a sample basis, by evaluating the reasonableness of the key assumptions and management judgment involved in evaluating the economic background, repayment history and repayment plan of customers. Based on the result of our procedures, we found management's impairment assessment of margin loans to customers to be acceptable.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter

Valuation assessment of Level 3 financial instruments

Refer to Note 40.3 to the consolidated financial statements.

As at 31 December 2018, the Level 3 financial instruments were mainly made up of unlisted funds, debt investments and preference shares. The amount consisted of HK$125,301 thousand financial assets at fair value through other comprehensive income and HK$3,483,928 thousand financial assets at fair value through profit or loss.

The valuation of the Level 3 financial instruments was based on specific valuation models that required a considerable number of inputs. Since many of the significant inputs were not based on observable market data, significant management judgment and estimates were involved in the valuation process.

Due to the significant balance of Level 3 financial instruments, significant management judgment on the use of valuation models and unobservable inputs, the valuation of Level 3 financial instruments is identified as a key audit matter.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the valuation assessment of Level 3 financial instruments included:

- Evaluating and testing the relevant controls over the valuation and classification of levels for Level 3 financial instruments;
- Evaluating and testing the appropriateness of models used by management for the valuation of significant Level 3 financial instruments with reference to market practice;
- For selected Level 3 financial instruments, inspecting and evaluating the terms and conditions of the underlying investment agreements relevant to valuation;
- Evaluating on a sample basis the appropriateness and reasonableness of the model inputs and testing the mathematical accuracy of the computation.
- For Level 3 financial instruments disposed during the year, evaluating and comparing the disposal proceeds to prior year valuation results in order to test the reasonableness of management's estimates in valuation.

Based on the result of our procedures, we found the models used and model inputs adopted to be acceptable.

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matter

Consolidation assessment of structured entities

Refer to Note 37 to the consolidated financial statements.

The Group acted as an asset manager for or invested in a number of investment funds and asset management schemes which are structured entities. The consolidation assessment on these structured entities has a significant impact on the financial statements.

Significant judgment was exercised by management in determining whether to consolidate or not for each of the structured entities with reference to the following three elements under HKFRS 10: (a) power over the investee; (b) exposure, or rights, to variable returns from involvement with the investee; and (c) ability to use power over the investee to affect the amount of the investor's returns.

Given the significant judgment exercised by management and the significant impact of the assessment on the financial statements, the consolidation assessment of structured entities is identified as a key audit matter.

How our audit addressed the Key Audit Matter

Our audit procedures in relation to the consolidation assessment of structured entities included:

- Inspecting the agreements of significant structured entities to understand the key terms and conditions relevant to the consolidation assessment of significant structured entities;
- Understanding and analysing management's assessment on the Group's ability to exercise power over the significant structured entities;
- Reviewing and recalculating the Group's variable return analysis including quantitative analysis on the magnitude and variability of return from involvement in the significant structured entities;
- For the significant structured entities, assessing management's judgment over the Group's ability to use power to influence returns by considering various factors, including but not limited to the scope of decision-making authority over the investee, rights held by other investors, remuneration to which the Group was entitled and the exposure to variable returns.

Based on the procedures performed above, we found management's consolidation judgment relating to the structured entities to be acceptable.

Independent Auditor's Report (Continued)

OTHER INFORMATION

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT AND RISK MANAGEMENT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit and Risk Management Committee is responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report (Continued)

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We communicate with the Audit and Risk Management Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Risk Management Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Risk Management Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheng Sin Bun, Benson.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	**1,397,862**	1,174,949
Other income	6	**86,397**	45,584
Revenue and other income		**1,484,259**	1,220,533
Commission and brokerage expenses	7	**(53,002)**	(75,230)
Finance costs	8	**(352,227)**	(133,028)
Staff costs	9	**(361,675)**	(276,753)
Depreciation		**(8,805)**	(8,685)
Other operating expenses	11	**(306,924)**	(211,310)
Change in impairment allowance	12	**20,778**	(80,375)
Total expenses		**(1,061,855)**	(785,381)
Operating profit		**422,404**	435,152
Share of results of associates	19	**(179)**	998
Share of results of joint ventures	20	**41**	13
Gain on disposal of an associate	19	**15,380**	–
Profit before taxation		**437,646**	436,163
Income tax expense	13	**(26,650)**	(32,651)
Profit for the year		**410,996**	403,512
Attributable to:			
Shareholders of the Company		**407,605**	403,907
Non-controlling interests		**3,391**	(395)
		410,996	403,512
Earnings per share attributable to shareholders of the Company for the year – Basic/Diluted (in HKD per share)	14	**0.15**	0.16

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Profit for the year		**410,996**	403,512
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of debt investments at fair value through other comprehensive income		**(126,971)**	–
Changes in fair value of available-for-sale investments		**–**	89,288
Amounts reclassified to profit or loss upon disposal of debt investments at fair value through other comprehensive income	6	**(1,092)**	–
Amounts reclassified to profit or loss upon disposal of available-for-sale investments	6	**–**	(61,019)
		(128,063)	28,269
Exchange differences on translation of foreign operations		**(17,472)**	–
		(145,535)	28,269
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		**(51,899)**	–
Other comprehensive (loss)/income, net of tax		**(197,434)**	28,269
Total comprehensive income		**213,562**	431,781
Attributable to:			
Shareholders of the Company		**210,171**	432,176
Non-controlling interests		**3,391**	(395)
		213,562	431,781

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	31/12/2018 HK$'000	31/12/2017 HK$'000
Assets			
Non-current Assets			
Property and equipment	16	**32,129**	20,983
Intangible assets	17	**3,196**	3,196
Interest in associates	19	**212,553**	103,714
Interest in joint ventures	20	**2,915**	1,782
Other assets	21	**22,867**	42,042
Available-for-sale investments	22	**–**	4,524,786
Financial assets at fair value through other comprehensive income	22	**2,503,218**	–
Loans and advances	23	**156,136**	384,572
Receivable from reverse repurchase agreements	27	**437,511**	–
Deferred tax assets	33	**18,685**	656
Total non-current assets		**3,389,210**	5,081,731
Current Assets			
Loans and advances	23	**1,269,215**	1,093,548
Tax recoverable		**10,987**	10,987
Accounts receivable	24	**641,190**	560,990
Other receivables and prepayments	25	**300,999**	172,126
Margin loans to customers	26	**3,918,371**	6,416,790
Receivable from reverse repurchase agreements	27	**187,670**	–
Amounts due from related parties	28	**3,242**	3,392
Financial assets at fair value through profit or loss	22	**4,141,644**	2,757,659
Derivative financial assets	22	**5,306**	831
Cash and bank balances	29	**594,005**	1,870,268
Total current assets		**11,072,629**	12,886,591
Total assets		**14,461,839**	17,968,322
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	34	**3,942,216**	3,942,216
Retained earnings		**2,520,038**	2,399,314
Revaluation reserve		**(170,708)**	14,508
Foreign currency translation reserve		**(17,472)**	–
Total equity attributable to shareholders of the Company		**6,274,074**	6,356,038
Non-controlling interests		**134**	4,077
Total equity		**6,274,208**	6,360,115

Consolidated Statement of Financial Position (Continued)

At 31 December 2018

	Notes	31/12/2018 HK$'000	31/12/2017 HK$'000
Liabilities			
Non-current liabilities			
Borrowings	35	**4,988,200**	–
Subordinated loans from the ultimate holding company	35	**1,000,000**	–
Obligation under repurchase agreements	35	**478,146**	–
Deferred tax liabilities		**–**	130
Total non-current liabilities		**6,466,346**	130
Current Liabilities			
Borrowings	35	**763,630**	10,068,242
Subordinated loans from the ultimate holding company	35	**–**	1,000,000
Obligation under repurchase agreements	35	**193,936**	–
Tax payable		**36,026**	5,783
Provision for staff costs		**78,516**	53,710
Other payables and accrued expenses	30	**94,367**	38,145
Accounts payable	31	**496,605**	390,668
Deferred revenue	32	**–**	25,788
Contract liability	32	**18,128**	–
Amount due to the ultimate holding company	28	**3,745**	6,080
Amount due to a fellow subsidiary	28	**83**	–
Financial liabilities at fair value through profit or loss	22	**30,960**	18,858
Derivative financial liabilities	22	**5,289**	803
Total current liabilities		**1,721,285**	11,608,077
Total liabilities		**8,187,631**	11,608,207
Total equity and liabilities		**14,461,839**	17,968,322
Net current assets		**9,351,344**	1,278,514
Total assets less current liabilities		**12,740,554**	6,360,245

The consolidated financial statements on pages 81 to 217 were approved and authorised for issue by the Board of Directors on 26 March 2019 and signed on its behalf by:

Tan Yueheng,
Chairman and Executive Director

Cheng Chuange,
Deputy Chief Executive Officer &
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Share capital HK$'000	Retained earnings HK$'000	Revaluation reserve HK$'000	Foreign currency translation reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2017	**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 year	**–**	**407,605**	**–**	**–**	**407,605**	**3,391**	**410,996**
Other comprehensive loss for the year	**–**	**(6,015)***	**(173,947)**	**(17,472)**	**(197,434)**	**–**	**(197,434)**
Total comprehensive income for the year	**–**	**401,590**	**(173,947)**	**(17,472)**	**210,171**	**3,391**	**213,562**
Dividends paid to ordinary shares (Note 15)	**–**	**(218,751)**	**–**	**–**	**(218,751)**	**–**	**(218,751)**
Dividends paid by a subsidiary	**–**	**–**	**–**	**–**	**–**	**(7,334)**	**(7,334)**
At 31 December 2018	**3,942,216**	**2,520,038**	**(170,708)**	**(17,472)**	**6,274,074**	**134**	**6,274,208**
At 1 January 2017	2,000,000	1,995,407	(13,761)	–	3,981,646	4,472	3,986,118
Profit/(loss) for the year	–	403,907	–	–	403,907	(395)	403,512
Other comprehensive income for the year	–	–	28,269	–	28,269	–	28,269
Total comprehensive income for the year	–	403,907	28,269	–	432,176	(395)	431,781
Issuance of ordinary shares (Note 34)	1,942,216	–	–	–	1,942,216	–	1,942,216
At 31 December 2017	3,942,216	2,399,314	14,508	–	6,356,038	4,077	6,360,115

* Amounts reclassified to retained earnings upon disposal of equity investments at fair value through other comprehensive income

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
Profit before taxation		**437,646**	436,163
Adjustments for:			
Dividend income		**(139,083)**	(69,427)
Interest income from loans or clients		**(502,933)**	(369,677)
Interest income from financial assets		**(198,273)**	(138,516)
Other interest income		**(36,675)**	(15,472)
Finance costs		**352,227**	133,028
Depreciation		**8,805**	8,685
Loss on disposal of property and equipment		**781**	–
Change in impairment allowance		**(20,778)**	80,375
Net unrealised gain on financial assets at fair value through profit or loss		**(4,378)**	(41,288)
Net realised gain on debt investments at fair value through other comprehensive income		**(1,092)**	–
Net realised gain on available-for-sale investments		**–**	(61,019)
Foreign exchange gain		**(7,264)**	(1,367)
Share of results of associates		**179**	(998)
Share of results of joint ventures		**(41)**	(13)
Gain on disposal of an associate		**(15,380)**	–
Operating cash flows before movements in working capital		**(126,259)**	(39,526)
Decrease/(increase) in other assets		**19,175**	(13,315)
Increase in financial assets at fair value through profit or loss		**(405,599)**	(2,150,351)
Increase in financial liabilities at fair value through profit or loss		**12,102**	412
Increase in derivative financial assets		**(4,475)**	(472)
Increase in derivative financial liabilities		**4,486**	449
Increase in accounts receivable		**(81,905)**	(36,568)
Decrease/(increase) in margin loans to customers		**2,435,779**	(1,313,301)
Decrease/(increase) in loans and advances		**50,507**	(1,478,120)
Increase in receivable from reverse repurchase agreements		**(625,214)**	–
Decrease in amounts due from related parties		**150**	12,701
Increase in other receivables and prepayments		**(79,594)**	(59,732)
Increase in accounts payable		**105,937**	275,317
(Decrease)/increase in amount due to the ultimate holding company		**(2,335)**	274
Increase in amount due to a fellow subsidiary		**83**	–
Increase/(decrease) in provision for staff costs		**24,806**	(27,321)
Increase/(decrease) in other payables and accrued expenses		**64,174**	(80,167)
(Decrease)/increase in deferred revenue		**(25,788)**	11,479
Increase in contract liability		**18,128**	–
Net cash generated from/(used in) operations		**1,384,158**	(4,898,241)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Income tax paid		**(1,541)**	(20,123)
Interest received from loans or clients		**502,287**	351,508
Other interest income received		**34,509**	14,716
Interest expenses paid		**(408,427)**	(131,185)
Net cash generated from/(used in) operating activities		**1,510,986**	(4,683,325)
Investing activities			
Dividend received		**139,083**	69,427
Interest income received		**199,841**	129,045
Purchase of property and equipment		**(20,896)**	(9,885)
Purchase of associates		**(213,400)**	–
Proceeds on disposal of an associate		**111,671**	–
Distribution from associates		**7,091**	–
Purchase of available-for-sale investments		**–**	(2,028,666)
Purchase of financial assets at fair value through other comprehensive income		**(341,413)**	–
Proceeds on disposal of available-for-sale investments		**–**	739,099
Proceeds on disposal of financial assets at fair value through other comprehensive income		**1,213,454**	–
Increase in time deposit with original maturity of more than three months		**(27)**	(26)
Increase in restricted cash		**(2,990)**	–
Net cash generated from/(used in) investing activities		**1,092,414**	(1,101,006)
Financing activities			
Net (repayment)/drawdown of bank loans and other borrowings	*44*	**(3,021,330)**	4,597,227
Net proceeds from issuance of ordinary shares	*34*	**-**	1,942,216
Dividends paid to shareholders		**(218,751)**	–
Dividends from subsidiaries paid to non-controlling interests		**(7,334)**	–
Net cash (used in)/generated from financing activities		**(3,247,415)**	6,539,443
Net (decrease)/increase in cash and cash equivalents		**(644,015)**	755,112
Cash and cash equivalents at 1 January		**1,245,628**	502,439
Effect of exchange rate changes on cash and cash equivalents		**(12,265)**	(11,923)
Cash and cash equivalents at 31 December	*29*	**589,348**	1,245,628

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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, 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of BOCOM International Holdings Company Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 *Changes in accounting policies and disclosures*

(a) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of HKFRS 9 and HKFRS 15. Other amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in Note 3.

(b) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

(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 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$150,247 thousand (Note 38). Of these commitments, approximately HK$26 thousand relate to short-term lease and will be recognised on a straight-line basis as expense in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

(b) New standards and interpretations not yet adopted (continued)

(i) HKFRS 16 Leases (continued)

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately HK$139,869 thousand on 1 January 2019, lease liabilities of HK$143,190 thousand (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will be approximately HK$3,321 thousand lower, and net current assets will be HK$65,983 thousand lower due to the presentation of a portion of the liability as a current liability.

The Group has no lessor activities and hence there is no impact on the financial statements.

The Group will apply the standard from its mandatory adoption date of 1 January 2019.

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 *Consolidation*

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 *Consolidation (continued)*

(a) *Business combinations (continued)*

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKFRS 9 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group’s accounting policies.

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions—that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 *Consolidation (continued)*

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates (continued)

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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 is recognised over time according to performance obligation and transaction prices of the contracts. Revenue from corporate finance is recognised when the Group has an enforceable right to payment for performance completed to date at all times throughout the duration of the contract.

Revenue from underwriting is recognised on execution of each significant action based on the terms of underlying agreements and mandates.

Revenue from asset management and advisory 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.

Handling fee is recognised when the brokerage handling services have been rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Realised gains/losses on financial assets are recognised on the transaction dates when the relevant contract notes are exchanged. Unrealised fair value changes are recognised in the period in which they arise.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in HK dollars ("HK$"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the income statement within 'other income' and 'other operating expenses' respectively.

Changes in the fair value of debt securities denominated in foreign currency classified as financial assets at fair value through other comprehensive income are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on financial assets and liabilities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as financial assets at fair value through other comprehensive income, are included in other comprehensive income.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(c) *Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.9 Borrowing costs

All borrowing costs are recognised in the statement of comprehensive income in the period in which they are incurred.

2.10 Taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Taxation (continued)

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Taxation (continued)

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.11 Financial instruments

2.11.1 *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 other comprehensive income (OCI), or through profit or loss), and

– those to be measured at amortised 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.

The Group classified its financial liabilities in the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial instruments (continued)

2.11.1 *Classification (continued)*

Financial liabilities at fair value through profit or loss are financial liabilities held for trading and financial liabilities designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is: (i) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; (ii) part of a portfolio of identical financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or (iii) a derivative (except for a derivative that is designated and effective hedging instrument or a financial guarantee).

Financial liabilities are designated at fair value through profit or loss upon initial recognition when: (i) the financial liabilities are managed, evaluated and reported internally on a fair value basis; (ii) the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in the measurement basis of the financial assets or financial liabilities; or (iii) if a contract contains one or more embedded derivatives, an entity may designate the entire hybrid (combined) contract as a financial liability at fair value through profit or loss unless the embedded derivative(s) does not significantly modify the cash flows that otherwise would be required by the contract; or it is clear with little or no analysis when a similar hybrid (combined) instrument is first considered that separation of the embedded derivative(s) is prohibited.

2.11.2 *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on the trade-date—the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial instruments (continued)

2.11.3 *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 "proprietary trading income", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement.

- 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 "proprietary trading income". 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 "proprietary trading income" and impairment expenses are presented as separate line item in the income statement.

- 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 "proprietary trading income" in the period in which it arises.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial instruments (continued)

2.11.3 *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 and foreign exchange 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 "proprietary trading income" when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "proprietary trading income" in the income statement 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.

Financial liabilities

Financial liabilities at fair value through profit or loss are initially recognised and subsequently measured at fair value on the statement of financial position. The related transaction costs incurred at the time of incurrence are expensed in profit or loss. Gains or losses arising from changes in the fair value of financial liabilities at fair value through profit or loss are recognised in profit or loss through "proprietary trading income".

Other financial liabilities

Other financial liabilities are initially recognised at fair value less transaction costs, and are subsequently measured at amortised cost using the effective interest method.

2.11.4 *Impairment of financial assets*

From 1 January 2018, the Group assesses on a forward-looking basis the expected credit losses associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial instruments (continued)

2.11.5 *Accounting policies applied until 31 December 2017*

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial liabilities are classified into the following categories: financial liabilities at fair value through profit or loss and other financial liabilities.

(a) *Subsequent measurement*

The measurement at initial recognition did not change an adoption of HKFRS 9.

Subsequent to the initial, available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement within "proprietary trading income" in the period in which they arise.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available for sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as "proprietary trading income".

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial instruments (continued)

2.11.5 *Accounting policies applied until 31 December 2017 (continued)*

(b) Impairment

Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables and held-to-maturity category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial instruments (continued)

2.11.5 *Accounting policies applied until 31 December 2017 (continued)*

(b) Impairment (continued)

Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss—measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss—is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

A significant or prolonged decline in the fair value of an equity investment classified as available-for-sale indicates there is objective evidence that the equity instrument is impaired. The Group assesses the fair value of available-for-sale equity instruments individually at statement of financial position date and determines that it is impaired if the fair value of the equity instrument declines to less than 50% (inclusive) or more of its initial cost or the fair value has been lower than its initial cost for more than one year (inclusive). Though the fair value of an available-for-sale financial asset declines less than 50% of its initial cost, the Company recognises impairment losses in profit or loss if it concludes this decline is prolonged and expected to last for more than one year based on professional judgement of the Company's research department and business department.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Group or the counterparty.

2.13 Margin loans to customers

Margin financing refers to the lending of loans by the Group to customers for purchase of securities, for which the customers provide the Group with collateral. The Group recognises margin loans as loans and receivables, and recognises interest income using effective interest rate method.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated and entity statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Employee benefits

The Group operates defined contribution pension plans.

(a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Employee benefits (continued)

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.17 Property and equipment

Property and equipment comprise leasehold improvements, furniture and fixtures, motor vehicles and office equipment stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	5 years
Furniture and fixtures	5 years
Motor vehicles	5 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.19).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income" and "other operating expenses" in the income statement.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Intangible assets

Trading rights

Trading right represents the Group's right to trade on or through The Stock Exchange of Hong Kong Limited ("SEHK"), and throttle rate for trading order to be transmitted to the Automated Matching System of the SEHK, with indefinite useful life as considered by management.

2.19 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

2.22 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.23 Receivable from reverse repurchase agreements and obligation under repurchase agreements

The receivable from reverse repurchase agreements arises when the Group received securities allowed to be re-pledged in the absence of default by counterparties at a specified later date and price. The amount paid by the Group is recognised as "Receivable from reverse repurchase agreements" in the consolidated statement of financial position. These securities are not recognised in the consolidated statement of financial position as the counterparty retains substantially all risks and returns of the securities. In the event of default by the counterparty, the Group has the right to sell the underlying securities for setting the outstanding receivables.

The obligation under repurchase agreements arises when the securities re-pledged are sold by the Group with a concurrent agreement to repurchase at a specified later date and price. These securities are not required to be derecognised in the consolidated statement of financial position. The consideration received by the Group is recognised as "Obligation under repurchase agreements" in the consolidated statement of financial position. The Group may be required to provide additional collateral based on the fair value of the underlying assets if necessary.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. 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 3(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 3(c) 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 3(b) to Note 3(c).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

(a) Impact on the financial statements (continued)

Consolidated Statement of Financial Position (extract)	31 December 2017 As originally presented HK$'000	Effect on adoption of HKFRS 9 HK$'000	1 January 2018 Restated 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 Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments

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 2.1. 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		**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		**2,337,199**	1,995,407

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments (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 costs (Receivables 2017) HK$'000
Closing balance at 31 December 2017 – HKAS 39*		**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		**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 (if any) arising from the adoption of HKFRS 15 (see Note 3(c)) 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 3(a) because of the impairment adjustments to receivables (HK$86,675 thousand).

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments (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		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		–	(10,134)	2,423,956

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

(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 was transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

3. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments (continued)

(i) Classifications and measurement (continued)

(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.

(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 was reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

(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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments (continued)

(ii) Impairment of financial assets

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

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

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 3(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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments (continued)

(ii) Impairment of financial assets (continued)

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 is 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 HKFRS 9 as a result of applying the expected credit risk model was HK$71,413 thousand. The loss allowance was decreased by HK$8,773 thousand during the year.

Accounts receivable, other receivables and amounts due from related parties

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

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 were decreased by HK$7,548 thousand for accounts receivable, other receivables and amounts due from related parties during the year.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments (continued)

(ii) Impairment of financial assets (continued)

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 year and the Group recognised a gain of HK$1,002 thousand from the reversal of loss allowance in the year.

Other financial assets at amortised cost

Other financial assets at amortised cost include loans and advances, receivable from reverse repurchase agreements 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 and a reversal of loss allowance by HK$3,455 thousand during the year.

(iii) 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.

(iv) 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

3. CHANGES IN ACCOUNTING POLICIES (continued)

(b) HKFRS 9 Financial instruments (continued)

(iv) Transitional provision (continued)

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.

(c) HKFRS 15 Revenue from Contracts with Customers

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.

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(b) Impairment allowances of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rate. 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 estimations at the end of each reporting period.

(c) Consolidation assessment of structured entities

Where the Group acts as asset manager of structured entities, the Group makes judgement on whether it is the principal or an agent to assess whether the Group controls the structured entities and should consolidate them. When performing this assessment, the Group considers several factors including, among other things, the scope of its decision-making authority over the structured entities, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the assets management services and the Group's exposure to variability of returns from other interests that it holds in the structured entities. The Group performs re-assessment periodically.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

5. 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 customers.

(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 there was no change in basis during the year ended 31 December 2018.

There was no client contributing over 10% of the total revenue of the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

5. SEGMENT INFORMATION (continued)

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

	Year ended 31 December 2018							
	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								
Revenue								
Commission and fee income								
– External	165,551	59,869	82,054	-	-	-	-	307,474
– Internal	-	-	7,072	-	-	-	(7,072)	-
Interest income								
– External	-	-	-	417,485	85,448	-	-	502,933
– Internal	-	-	-	-	33,025	-	(33,025)	-
Proprietary trading income								
– External	-	-	-	-	587,455	-	-	587,455
– Internal	-	-	-	-	-	-	-	-
Other income	20,760	-	6	-	17,957	47,674	-	86,397
	186,311	59,869	89,132	417,485	723,885	47,674	(40,097)	1,484,259
Total expenses	(219,155)	(125,598)	(97,927)	(192,891)	(466,381)	-	40,097	(1,061,855)
Share of results of associates	-	-	-	-	(179)	-	-	(179)
Share of results of joint ventures	-	-	-	-	41	-	-	41
Gain on disposal of an associate	-	-	-	-	15,380	-	-	15,380
(Loss)/profit before taxation	(32,844)	(65,729)	(8,795)	224,594	272,746	47,674	-	437,646
Other disclosures								
Depreciation	(1,821)	(111)	(1,263)	(5,546)	(64)	-	-	(8,805)
Change in impairment allowance	-	7,417	-	8,773	4,588	-	-	20,778
Finance costs	-	-	-	(97,057)	(288,195)	-	33,025	(352,227)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

5. SEGMENT INFORMATION (continued)

	Year ended 31 December 2017							
	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								
Revenue								
Commission and fee income								
– External	190,310	154,127	99,766	–	–	–	–	444,203
– Internal	–	33,411	8,828	–	–	–	(42,239)	–
Interest income								
– External	–	–	–	333,706	35,971	–	–	369,677
– Internal	–	–	–	–	12,642	–	(12,642)	–
Proprietary trading income								
– External	–	–	–	–	361,069	–	–	361,069
– Internal	–	–	–	–	–	–	–	–
Other income	18,199	1,082	1,242	–	7,886	17,175	–	45,584
	208,509	188,620	109,836	333,706	417,568	17,175	(54,881)	1,220,533
Total expenses	(215,019)	(177,917)	(99,713)	(135,498)	(149,571)	(62,544)	54,881	(785,381)
Share of results of associates	–	–	–	–	998	–	–	998
Share of results of joint ventures	–	–	–	–	13	–	–	13
(Loss)/profit before taxation	(6,510)	10,703	10,123	198,208	269,008	(45,369)	–	436,163
Other disclosures								
Depreciation	(2,286)	(108)	(1,591)	(4,635)	(65)	–	–	(8,685)
Change in impairment allowance	–	(60,604)	–	(19,771)	–	–	–	(80,375)
Finance costs	–	–	–	(44,741)	(100,929)	–	12,642	(133,028)

The geographical information of revenue is disclosed as follows:

	2018 HK$'000	2017 HK$'000
Total revenue from external customers by location of operations		
– Hong Kong	**1,468,845**	1,196,769
– Mainland China	**15,414**	23,764
	1,484,259	1,220,533

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

6. REVENUE AND OTHER INCOME

	2018 HK$'000	2017 HK$'000
REVENUE		
COMMISSION AND FEE INCOME		
Brokerage commission	**165,551**	190,310
Corporate finance and underwriting fee	**59,869**	154,127
Asset management and advisory income	**82,054**	99,766
	307,474	444,203
INTEREST INCOME		
Interest income from margin financing	**417,485**	333,706
Interest income from loans and advances	**79,602**	35,971
Interest income from receivable from reverse repurchase agreements	**5,846**	–
	502,933	369,677
PROPRIETARY TRADING INCOME		
Unrealised gain on financial assets	**4,378**	41,288
Realised gain on financial assets at fair value through profit or loss	**241,667**	53,823
Realised gain on debt investments at fair value through other comprehensive income	**1,092**	–
Realised gain on available-for-sale investments	**–**	61,019
Realised loss on derivative financial assets	**(456)**	–
Fair value changes from financial liabilities at fair value through profit or loss	**3,418**	(3,004)
Dividend income from		
– Financial assets at fair value through profit or loss	**75,176**	1,822
– Financial assets at fair value through other comprehensive income	**63,907**	–
– Available-for-sale investments	**–**	67,605
Interest income from		
– Financial assets at fair value through profit or loss	**70,008**	25,238
– Financial assets at fair value through other comprehensive income	**128,265**	–
– Available-for-sale investments	**–**	113,278
	587,455	361,069
	1,397,862	1,174,949

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

6. REVENUE AND OTHER INCOME (continued)

	2018 HK$'000	2017 HK$'000
OTHER INCOME		
Handling fees	**20,841**	18,285
Other interest income	**36,675**	15,472
Exchange gains	**7,264**	1,367
Others	**21,617**	10,460
	86,397	45,584

7. COMMISSION AND BROKERAGE EXPENSES

	2018 HK$'000	2017 HK$'000
Commission rebate to account executives	**48,114**	66,285
Commission rebate to the ultimate holding company (Note 36)	**3,390**	8,815
Commission rebate to a fellow subsidiary (Note 36)	**1,413**	–
Others	**85**	130
	53,002	75,230

8. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest expenses on subordinated loans from the ultimate holding company (Note 36)	**28,555**	20,532
Interest expenses on bank loans from the ultimate holding company (Note 36)	**49,066**	31,329
Interest expenses on bank loans and overdraft from other financial institutions	**197,112**	79,514
Interest expenses on a total return swap arrangement with external third parties	**57,730**	–
Interest expenses on obligation under repurchase agreements	**5,194**	–
Others	**26**	1,653
	337,683	133,028
Other borrowing costs to the ultimate holding company (Note 36)	**437**	–
Other borrowing costs to other financial institutions	**14,107**	–
	352,227	133,028

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

9. STAFF COSTS

	2018 HK$'000	2017 HK$'000
Salaries, bonus, staff allowances	**338,642**	263,121
Director's fees	**1,080**	1,080
Contributions to retirement benefit scheme	**21,953**	12,552
	361,675	276,753

During the year, no benefits were provided in respect of the termination of the service of directors and the Group did not incur any payment to third parties for making available directors' services.

Five highest paid individuals

The five individuals whose emolument were the highest in the Group include one director whose emolument is reflected in the analysis below for the years ended 31 December 2018 and 2017.

The emoluments payable to the remaining individuals (excluding directors) during the year are as follows:

Number of individuals

	2018	2017
Individuals		
Emolument bands (HK$)		
4,500,001 – 5,000,000	**1**	–
5,000,001 – 5,500,000	**–**	–
5,500,001 – 6,000,000	**1**	2
6,000,001 – 6,500,000	**–**	–
6,500,001 – 7,000,000	**1**	–
7,000,001 – 7,500,000	**–**	1
7,500,001 – 8,000,000	**1**	–
12,500,001 – 13,000,000	**–**	1
Number of individuals	**4**	4

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

9. STAFF COSTS (continued)

Details of the remuneration payable to the remaining four individuals for both years ended 31 December 2018 and 2017, whose emoluments were highest in the Group are as follows:

	2018 HK$'000	2017 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**11,440**	10,065
Contributions to retirement benefit scheme	**1,014**	669
Bonus	**12,860**	20,695
	25,314	31,429

10. BENEFITS AND INTERESTS OF DIRECTORS

Directors' and chief executive's emoluments

The emoluments of all directors and chief executives are set out below:

For the year ended 31 December 2018

Name	Fees HK$'000	Salaries, housing, other allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Tan Yueheng(1), (2)	–	3,573	1,355	464	5,392
Li Ying(2)	–	3,100	1,180	272	4,552
Cheng Chuange(2)	–	2,080	2,200	409	4,689
Wang Yijun	–	–	–	–	–
Lin Zhihong	–	–	–	–	–
Shou Fugang	–	–	–	–	–
Xi Xuanhua(3)	–	3,000	2,450	409	5,859
Su Fen(5)	–	500	1,200	9	1,709
Independent Non-executive Director:					
Tse Yung Hoi	360	–	–	–	360
Ma Ning(4)	360	–	–	–	360
Lin Zhijun(4)	360	–	–	–	360
Total	1,080	12,253	8,385	1,563	23,281

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

10. BENEFITS AND INTERESTS OF DIRECTORS (continued)

Directors' and chief executive's emoluments (continued)

For the year ended 31 December 2017

Name	Fees HK$'000	Salaries, housing, other allowances and benefits in kind HK$'000	Discretionary bonus HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Total HK$'000
Tan Yueheng(1), (2)	–	3,065	1,740	296	5,101
Li Ying(2)	–	2,750	1,100	164	4,014
Cheng Chuange(2)	–	1,842	2,002	262	4,106
Wang Yijun	–	–	–	–	–
Lin Zhihong	–	–	–	–	–
Shou Fugang	–	–	–	–	–
Xi Xuanhua(3)	–	2,940	2,490	262	5,692
Independent Non-executive Director:					
Tse Yung Hoi	360	–	–	–	360
Ma Ning(4)	360	–	–	–	360
Lin Zhijun(4)	360	–	–	–	360
Total	1,080	10,597	7,332	984	19,993

(1) Tan Yueheng was appointed to be the Chief Executive Officer in July 2007 and ceased to be the Chief Executive Officer in July 2016. Tan Yueheng was appointed to be the Chairman of the Board in July 2016.

(2) Tan Yueheng, Li Ying and Cheng Chuange were appointed to be Executive Directors in October 2016.

(3) Xi Xuanhua was appointed to be Deputy Chief Executive Officer in July 2017.

(4) Ma Ning and Lin Zhijun were appointed to be Directors effective from October 2016.

(5) Su Fen was appointed to be Deputy Chief Executive Officer in July 2018.

No directors waived or agreed to waive any emoluments during the years ended 31 December 2018 and 2017. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any Directors during the years ended 31 December 2018 and 2017.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

11. OTHER OPERATING EXPENSES

	2018 HK$'000	2017 HK$'000
Auditor's remuneration	**3,682**	2,790
Bank charges	**624**	3,416
Business development expenses	**6,104**	6,081
Business tax expenses	**162**	229
Compensation to a client	**17,574**	–
Exchange and clearing fees	**24,592**	24,172
Investing administrative expenses		
– management fee expenses	**22,846**	–
– performance fee expenses	**47,555**	–
IT expenses	**36,020**	27,226
Legal and professional fee	**23,324**	11,172
Listing related expenses	**–**	29,634
Loss on disposal of property and equipment	**781**	–
Motor and travelling expenses	**11,776**	8,743
Office and maintenance expenses	**32,574**	29,928
Operating lease charges	**64,572**	57,466
Recruitment expenses	**6,028**	5,045
Others	**8,710**	5,408
	306,924	211,310

12. CHANGE IN IMPAIRMENT ALLOWANCE

	2018 HK$'000	2017 HK$'000
Change in impairment allowance on:		
Receivable from reverse repurchase agreements (Note 27)	**(33)**	–
Accounts receivable (Note 24)	**7,434**	(60,604)
Margin loans to customers (Note 26)	**8,773**	(19,771)
Loans and advances (Note 23)	**3,488**	–
Debt investments carried at FVOCI	**1,002**	–
Other receivables	**113**	–
Amounts due from related parties	**1**	–
	20,778	(80,375)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

13. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong Profits Tax	**30,142**	33,879
PRC Enterprise Income Tax	**1,831**	–
Over provision in prior years	**–**	(874)
Total current tax	**31,973**	33,005
Deferred tax (Note 33):		
Reversal from temporary difference	**(5,323)**	(354)
Income tax expense recognised in profit or loss	**26,650**	32,651

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the People's Republic of China's entities is 25% from 1 January 2008 onwards.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2018 HK$'000	2017 HK$'000
Profit before taxation	**437,646**	436,163
Tax at the income tax rate of 16.5%	**72,212**	71,967
Tax effect of expenses not deductible for tax purpose	**2,685**	11,721
Tax effect of income not taxable for tax purpose	**(53,053)**	(41,107)
Tax effect of tax losses not recognised	**24,851**	3,264
Tax effect of utilisation of tax losses previously not recognised	**(16,253)**	(11,436)
Over provision in prior years	**(5,323)**	(1,228)
Effect of different tax rates of subsidiaries operating in the PRC	**1,166**	(692)
Others	**365**	162
Tax charge for the year	**26,650**	32,651

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

14. EARNINGS PER SHARE

(a) Basic

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 year.

	2018	2017
Profit attributable to shareholders of the Company (HK$'000)	**407,605**	403,907
Weighted average number of ordinary shares in issue (in '000 shares)	**2,734,392**	2,451,908
Earnings per share (in HKD per share)	**0.15**	0.16

(b) Diluted

For the years ended 31 December 2018 and 2017, there were no potential diluted ordinary shares. The diluted earnings per share was the same as the basic earnings per share.

15. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Final dividend proposed after the end of the reporting period of HK$0.08 per ordinary share (2017: HK$0.08 per ordinary share)	**218,751**	218,751

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

16. PROPERTY AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
Cost					
At 1 January 2017	33,277	3,716	6,490	67,819	111,302
Additions	3,188	805	–	5,892	9,885
Disposals	(17)	(40)	–	(478)	(535)
Exchange adjustments	–	–	–	–	–
At 31 December 2017 and 1 January 2018	36,448	4,481	6,490	73,233	120,652
Additions	3,527	60	3,146	14,163	20,896
Disposals	(1,119)	(159)	–	(699)	(1,977)
Exchange adjustments	(666)	(31)	(31)	(117)	(845)
At 31 December 2018	38,190	4,351	9,605	86,580	138,726
Accumulated depreciation					
At 1 January 2017	28,963	3,294	6,416	52,845	91,518
Charge for the year	1,801	291	64	6,529	8,685
Disposals	(17)	(40)	–	(477)	(534)
Exchange adjustments	–	–	–	–	–
At 31 December 2017 and 1 January 2018	30,747	3,545	6,480	58,897	99,669
Charge for the year	1,624	265	474	6,442	8,805
Disposals	(556)	(87)	–	(553)	(1,196)
Exchange adjustments	(521)	(25)	(21)	(114)	(681)
At 31 December 2018	31,294	3,698	6,933	64,672	106,597
Carrying values					
At 31 December 2017	5,701	936	10	14,336	20,983
At 31 December 2018	6,896	653	2,672	21,908	32,129

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

17. INTANGIBLE ASSETS

The Group holds four trading rights of The Stock Exchange of Hong Kong Limited (the "SEHK").

	2018 HK$'000	2017 HK$'000
Trading rights of the SEHK	**3,196**	3,196

The above intangible assets are considered by the directors as having an indefinite useful life because the trading rights of the SEHK are expected to contribute to net cash inflows indefinitely. The intangible assets will not be amortised until their useful lives are determined to be finite. Instead, the intangible assets will be tested for impairment annually.

For the purpose of impairment testing on the intangible assets held by the Group, the recoverable amounts have been determined based on fair values less costs of disposal. For the years ended 31 December 2018 and 2017, no impairment loss for intangible assets was recognised, and there were no additions or disposals of intangible assets.

18. INVESTMENT IN SUBSIDIARIES

As at 31 December 2018, the Company had direct or indirect interests in the following principal subsidiaries, which in the opinion of the directors, is material to the Group.

Name of subsidiaries	Place of incorporation, operation and kind of legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the Group 2018	Equity interest held by the Group 2017	Directly held/ indirectly held
BOCOM International (Asia) Ltd.	Hong Kong, Limited Liability Company	Corporate finance	HKD10,000,000	**100%**	100%	Directly
BOCOM International Securities Ltd.	Hong Kong, Limited Liability Company	Dealing in securities and futures	HKD1,100,000,000	**100%**	100%	Directly
BOCOM International Asset Management Ltd.	Hong Kong, Limited Liability Company	Asset management	2018: HKD100,000,000 2017: HKD50,000,000	**100%**	100%	Directly
BOCOM International (Shanghai) Equity Investment Management Co., Ltd.* 交銀國際(上海)股權投資管理有限公司	Shanghai, Limited Liability Company	Investment management and advisory service	USD33,000,000	**100%**	100%	Directly

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

18. INVESTMENT IN SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation, operation and kind of legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the Group 2018	Equity interest held by the Group 2017	Directly held/ indirectly held
BOCOM International China Fund G.P.	Cayman Islands, General Partnership	Investment management	USD1	**100%**	100%	Directly
BOCOM International China Dynamic Fund	Hong Kong, Investment fund of unit trust	Investment trading	2018: RMB30,488,856 2017: RMB45,328,182	**66.92%**	65.12%	Directly
Preferred Investment Management Limited	British Virgin Islands, Limited Liability Company	Investment management	USD100	**100%**	100%	2018: Directly 2017: Indirectly
Shanghai Bole Investment Co., Ltd* 上海博樂投資有限公司	Shanghai, Limited Liability Company	Investment trading	RMB32,000,000	**100%**	100%	Indirectly
BOCOM International (Shanghai) Equity Investment Fund I L.P.* 交銀國際一期(上海)股權投資基金合夥企業(有限合夥)	Shanghai, Limited Partnership	Investment trading	2018: RMB1,841,687 2017: RMB71,425,000	**93.64%**	93.64%	Indirectly
Shanghai Boli Investment Co., Ltd*上海博禮投資有限公司	Shanghai, Limited Liability Company	Investment trading	RMB11,000,000	**100%**	100%	Indirectly
BOCOM International Futures Limited**	Hong Kong, Limited Liability Company	Dealing in futures	HKD10,000,000	**100%**	100%	Indirectly
BOCOM International Equity Investment Management (Shenzhen) Company Limited* 交銀國際股權投資管理(深圳)有限公司	Shenzhen, Limited Liability Company	Investment management	2018: USD5,000,000 2017: USD1,050,000	**100%**	100%	Indirectly
BOCOM International Universal Investment Limited	British Virgin Islands, Limited Liability Company	Investment management	USD1	**100%**	–	Directly
Brilliant Investment Management Limited	Cayman Islands, Limited Liability Company	Investment management	USD1	**100%**	–	Indirectly

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

18. INVESTMENT IN SUBSIDIARIES (continued)

* The English translation of the names is for reference only. The official names of these entities are in Chinese.

** BOCOM International Futures Limited ceased the business of regulated activities on 9 January 2018.

All the subsidiaries have adopted 31 December as their financial year end date for statutory reporting purpose.

19. INTEREST IN ASSOCIATES

The amounts recognised in the consolidated statement of financial position are as follows:

	2018 HK$'000	2017 HK$'000
Unlisted investment at the beginning of the year	**86,769**	86,769
Accumulated profit after acquisition	**16,945**	15,947
Addition for the year	**213,400**	–
Disposal during the year	**(96,291)**	–
Share of (loss)/profit for the year	**(179)**	998
Distribution for the year	**(7,091)**	–
Exchange difference arising from translation of foreign operations	**(1,000)**	–
Interest in associates	**212,553**	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.

On 24 May 2018, the Group invested in Jiaxing Henghao Equity Investment L.P. for a consideration of RMB14,992 thousand and has significant influence over the fund. Therefore, it is accounted for as an associate.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

19. INTEREST IN ASSOCIATES (continued)

Set out below is the associates of the Group as at 31 December 2018 which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares; the country of incorporation or registration are also its principal place of business.

Name of entity	Place of incorporation, operation and kind of legal entity	Principal activities	Measurement method	Issued and fully paid-up capital	2018	2017	Directly held/ indirectly held
BIAM Leveraged Credit Fund SP	Cayman Islands, Investment fund	Investment trading	Equity	USD70,300,394	**35.60%**	–	Directly
ChinaStar Limited For International Economic & Technical Cooperation* 中國四達國際經濟技術合作有限公司	Beijing, Limited Liability Company	Human Resource Consulting	Equity	RMB113,518,400	**–**	37.46%	Indirectly
Jiaxing Henghao Equity Investment L.P.* 嘉興恒昊股權投資基金合夥企業(有限合夥)	Jiaxing, Limited Partnership	Private equity investment	Equity	RMB153,069,000	**9.79%**	–	Indirectly

* The English translation of the names is for reference only. The official name of the entity is in Chinese.

Notes to the Consolidated Financial Statements (Continued)

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19. INTEREST IN ASSOCIATES (continued)

Set out below is the summarised financial information for the significant associates of the Group which are accounted for using the equity method:

	Jiaxing Henghao Equity Investment L.P. 2018 HK$'000	BIAM Leveraged Credit Fund SP 2018 HK$'000
Current		
Cash and cash equivalents	5,558	19,675
Other current assets (excluding cash)	–	1,766
Total current assets	5,558	21,441
Total current liabilities	104	12
Non-current		
Total non-current assets	165,719	528,320
Total non-current liabilities	–	–
Net assets	171,173	549,749
Net assets attributable to shareholders	171,173	549,749
Reconciled to the Group's interests in the associates:		
Group's effective interest	9.79%	35.60%
Group's share of net assets of associates	16,765	195,729
Carrying amount	16,765	195,729
Revenue	–	14,931
(Loss)/profit after taxation	(2,054)	2,349
Reconciled to the Group's share of results of associates:		
Group's effective interest	9.79%	35.60%
Group's share of (loss)/profit after taxation of associates for the year	(201)	354

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

20. INTEREST IN JOINT VENTURES

	2018 HK$'000	2017 HK$'000
Balance at beginning of year	**1,782**	1,769
Addition for the year	**1,193**	–
Share of profit for the year	**41**	13
Exchange difference arising from translation of foreign operations	**(101)**	–
Balance at end of year	**2,915**	1,782

Set out below are the joint ventures of the Group as at 31 December 2018, which are held indirectly by the Group.

Name of entity	Place of incorporation, operation and kind of legal entity	Principal activities	Measurement method	Issued and fully paid-up capital	2018	2017
BOCOM NORINCO (Zhuhai) Equity Investment Management Co., Ltd* 交銀中兵(珠海)股權投資管理有限公司	Zhuhai, Limited Liability	Investment management and consultancy services	Equity	RMB3,000,000	**51%**	51%
Baise BOCOM Fudi Poverty-relief and Development Fund L.P.* 百色交銀福地扶貧開發基金合夥企業(有限合夥)	Baise, Limited Partnership	Investment management and consultancy services	Equity	RMB301,000,000	**0.02%**	–

* The English translation of the names is for reference only. The official name of the entity is in Chinese.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

20. INTEREST IN JOINT VENTURES (continued)

Set out below are the summarised financial information for joint ventures which is accounted for using the equity method:

BOCOM NORINCO (Zhuhai) Equity Investment Management Co., Ltd

	2018 HK$'000	2017 HK$'000
Current		
Cash and cash equivalents	**3,534**	3,643
Total current assets	**3,534**	3,643
Other payables	**36**	149
Total current liabilities	**36**	149
Non-current		
Total non-current assets	**–**	–
Total non-current liabilities	**–**	–
Net assets	**3,498**	3,494
Reconciled to the Group's interests in the joint venture:		
Group's effective interest	**51%**	51%
Group's share of net assets of the joint venture	**1,784**	1,782
Carrying amount	**1,784**	1,782
Revenue	**–**	101
Interest income	**106**	–
Operating expenses	**(17)**	(72)
Profit before taxation	**89**	29
Income tax expense	**(9)**	(3)
Profit after taxation	**80**	26
Reconciled to the Group's share of results of the joint venture:		
Group's effective interest	**51%**	51%
Group's share of profit after taxation of the joint venture for the year	**41**	13

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

20. INTEREST IN JOINT VENTURES (continued)

Baise BOCOM Fudi Poverty-relief and Development Fund L.P.

	2018 HK$'000
Current	
Cash and cash equivalents	1,602
Total current assets	1,602
Other payables	57
Total current liabilities	57
Non-current	
Total non-current assets	371,563
Total non-current liabilities	–
Net assets	373,108
Reconciled to the Group's interests in the joint venture:	
Group's effective interest	0.02%
Group's share of net assets of the joint venture	1,131
Interest income	3
Operating expenses	(203)
Investment gain	18,950
Profit before taxation	18,750
Income tax expense	–
Profit after taxation	18,750
Reconciled to the Group's share of results of the joint venture:	
Group's effective interest	0.02%
Group's share of profit after taxation of the joint venture for the year	–

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

21. OTHER ASSETS

	2018 HK$'000	2017 HK$'000
Central Clearing and Settlement System – Guarantee Fund	**12,215**	25,104
Contribution in cash to Compensation Fund of SEHK	**150**	150
Contribution in cash to the Fidelity Fund of SEHK	**150**	150
Reserve fund deposits with the Hong Kong Futures Exchange ("HKFE") Clearing Corporation Limited	**1,500**	3,955
Reserve fund deposits with the SEHK Options Clearing House Limited ("SEOCH")	**8,202**	12,033
Admission fee paid to the Hong Kong Securities Clearing Company Limited	**150**	150
Stamp duty deposit	**500**	500
	22,867	42,042

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

22. 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.

Financial assets at fair value through other comprehensive income

	As at 31 December 2018			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Designated at fair value through other comprehensive income upon initial recognition				
Equity securities	**2,475**	**–**	**–**	**2,475**
Preference shares	**1,127,504**	**–**	**–**	**1,127,504**
Unlisted equity	**–**	**–**	**66,564**	**66,564**
	1,129,979	**–**	**66,564**	**1,196,543**
Mandatorily measured at fair value through other comprehensive income				
Debt investments	**1,247,938**	**–**	**58,737**	**1,306,675**
Total	**2,377,917**	**–**	**125,301**	**2,503,218**

Available-for-sale-investments

	As at 31 December 2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
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
Unlisted fund	–	–	197,715	197,715
Unlisted equity	–	–	59,537	59,537
Club debenture	–	–	2,099	2,099
	3,207,436	100,000	1,217,350	4,524,786

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

22. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets at fair value through profit or loss

	As at 31 December 2018			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Designated at fair value through profit and loss upon initial recognition				
Equity securities	**98,128**	**–**	**–**	**98,128**
Debt investments	**3,909**	**–**	**–**	**3,909**
Preference shares	**–**	**–**	**1,037,617**	**1,037,617**
Unlisted equity	**–**	**–**	**78,200**	**78,200**
	102,037	**–**	**1,115,817**	**1,217,854**
Mandatorily measured at fair value through profit or loss				
Equity securities	**57,763**	**26,982**	**–**	**84,745**
Debt investments	**440,122**	**–**	**–**	**440,122**
Club debenture	**–**	**–**	**1,991**	**1,991**
Funds	**30,812**	**–**	**–**	**30,812**
Unlisted funds	**–**	**–**	**1,925,854**	**1,925,854**
Equity-linked loan	**–**	**–**	**440,266**	**440,266**
	528,697	**26,982**	**2,368,111**	**2,923,790**
Total	**630,734**	**26,982**	**3,483,928**	**4,141,644**

	As at 31 December 2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Equity securities	43,220	–	–	43,220
Debt investments	571,345	–	–	571,345
Preference shares	–	–	346,331	346,331
Funds	36,944	–	–	36,944
Unlisted funds	–	–	1,663,185	1,663,185
Unlisted equity	–	–	10,306	10,306
Structured financial product	–	–	86,328	86,328
	651,509	–	2,106,150	2,757,659

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

22. FINANCIAL ASSETS AND LIABILITIES (continued)

Derivative financial assets

	As at 31 December 2018			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial assets	**5,306**	**–**	**–**	**5,306**

	As at 31 December 2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial assets	831	–	–	831

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

22. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial liabilities at fair value through profit or loss

	At 31 December 2018			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Designated at fair value through profit or loss upon initial recognition				
Financial liabilities to the investors of the funds consolidated	**(11,410)**	**–**	**–**	**(11,410)**
Structured note payable	**–**	**–**	**(19,550)**	**(19,550)**
	(11,410)	**–**	**(19,550)**	**(30,960)**

	At 31 December 2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial liabilities to the investors of the funds consolidated	(18,858)	–	–	(18,858)

Derivative financial liabilities

	At 31 December 2018			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial liabilities	**–**	**(5,289)**	**–**	**(5,289)**

	At 31 December 2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial liabilities	–	(803)	–	(803)

Details of disclosure for fair value measurement are set out in Note 40.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

23. LOANS AND ADVANCES

	2018 HK$'000	2017 HK$'000
Gross loans and advances	**1,698,583**	1,749,090
Less: impairment allowance	**(273,232)**	(270,970)
	1,425,351	1,478,120
Net loans and advances		
Non-current portion	**156,136**	384,572
Current portion	**1,269,215**	1,093,548
	1,425,351	1,478,120

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

	Impairment allowance under HKFRS 9 HK$'000	Impairment allowance under HKAS 39 HK$'000	Total HK$'000
As at 31 December 2017	**–**	**270,970**	**270,970**
Amount restated through opening retained earnings on adoption of HKFRS 9	**276,720**	**(270,970)**	**5,750**
As at 1 January 2018	**276,720**	**–**	**276,720**
Change in impairment allowance during the year	**(3,488)**	**–**	**(3,488)**
As at 31 December 2018	**273,232**	**–**	**273,232**

	Total HK$'000
As at 1 January 2017	270,970
Change in impairment allowance during the year	–
As at 31 December 2017	270,970

The maximum exposure to credit risk at the reporting date is the carrying value of loans and advances above.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

24. ACCOUNTS RECEIVABLE

	2018 HK$'000	2017 HK$'000
Corporate finance and underwriting business	**16,819**	105,599
Less: written off	**–**	(60,604)
	16,819	44,995
Dealing in securities and futures business		
– Clients	**386,917**	165,831
– Brokers	**126,584**	87,989
– Clearing house	**112,575**	262,175
	626,076	515,995
Less: impairment allowance	**(1,705)**	–
	641,190	560,990

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

	Impairment allowance under HKFRS 9 HK$'000	Impairment allowance under HKAS 39 HK$'000	Total HK$'000
As at 31 December 2017	**–**	**–**	**–**
Amount restated through opening retained earnings on adoption of HKFRS 9	**9,139**	**–**	**9,139**
As at 1 January 2018	**9,139**	**–**	**9,139**
Change in impairment allowance during the year	**(7,434)**	**–**	**(7,434)**
As at 31 December 2018	**1,705**	**–**	**1,705**

No impairment allowance was recognised during the year ended 31 December 2017.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

24. ACCOUNTS RECEIVABLE (continued)

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

	2018 HK$'000	2017 HK$'000
Neither past due nor credit-impaired	**640,610**	551,726
Less than 31 days past due	**122**	177
31 – 60 days past due	**66**	3
61 – 90 days past due	**5**	–
Over 90 days past due	**2,092**	9,084
	2,285	9,264
Less: impairment allowance	**(1,705)**	–
	641,190	560,990

Client 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.

	2018 HK$'000	2017 HK$'000
Total market value of securities pledged as collateral in respect of the overdue accounts receivable – clients	**339,119**	211,662

The receivable from brokers are neither past due nor credit-impaired.

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

The settlement of the receivables from corporate finance and underwriting business is done based on the completion of each phase of the project.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

25. OTHER RECEIVABLES AND PREPAYMENTS

	2018 HK$'000	2017 HK$'000
Other receivables	**235,237**	163,047
Less: impairment allowance	**(258)**	–
	234,979	163,047
Prepayments	**66,020**	9,079
	300,999	172,126

26. MARGIN LOANS TO CUSTOMERS

Margin clients are required to pledge securities collateral to the Group in order to obtain credit facilities for securities trading and are repayable on demand. The amount of credit facilities granted to them is determined by the discounted value of securities accepted by the Group.

	2018 HK$'000	2017 HK$'000
Gross margin loans to customers	**4,009,042**	6,444,821
Less: impairment allowance	**(90,671)**	(28,031)
Net margin loans to customers	**3,918,371**	6,416,790

The Group applies a "three-stage" model to measuring expected credit losses for the margin loans to customers. Note 3(b) provides for details about the impacts of HKFRS 9 adoption.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

26. MARGIN LOANS TO CUSTOMERS (continued)

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

	Impairment allowance under HKFRS 9 HK$'000	Impairment allowance under HKAS 39 HK$'000	Total HK$'000
As at 31 December 2017	**–**	**28,031**	**28,031**
Amount restated through opening retained earnings on adoption of HKFRS 9	**99,444**	**(28,031)**	**71,413**
As at 1 January 2018	**99,444**	**–**	**99,444**
Change in impairment allowance during the year	**(8,773)**	**–**	**(8,773)**
As at 31 December 2018	**90,671**	**–**	**90,671**

	Total HK$'000
As at 1 January 2017	8,260
Change in impairment allowance during the year	19,771
As at 31 December 2017	28,031

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

26. MARGIN LOANS TO CUSTOMERS (continued)

	2018 HK$'000	2017 HK$'000
Margin loans to customers analysed by nature		
Institutions	**2,922,792**	4,744,714
Individuals	**995,579**	1,672,076
	3,918,371	6,416,790
Total market value of securities pledged as collateral in respect of margin loans to customers analysed by collateral		
Stocks	**16,821,961**	19,882,918
Debt securities	**526,995**	164,488
	17,348,956	20,047,406

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 Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

27. RECEIVABLE FROM REVERSE REPURCHASE AGREEMENTS

	2018 HK$'000	2017 HK$'000
Gross receivable from reverse repurchase agreements	**625,214**	–
Less: impairment allowance	**(33)**	–
	625,181	–
Net receivable from reverse repurchase agreements		
Non-current	**437,511**	–
Current	**187,670**	–
	625,181	–

As at 31 December 2018, the fair value of the collateral allowed to be re-pledged for the outstanding receivable was HK$1,052,775 thousand (31 December 2017: Nil).

28. AMOUNT(S) DUE FROM/(TO) THE ULTIMATE HOLDING COMPANY/A FELLOW SUBSIDIARY/RELATED PARTIES

The amounts are unsecured, interest-free and repayable on demand.

29. CASH AND BANK BALANCES

	2018 HK$'000	2017 HK$'000
Current and savings accounts	**404,390**	1,123,138
Time deposits with original maturity of less than three months	**184,958**	122,490
Cash and cash equivalents	**589,348**	1,245,628
Time deposits with original maturity of more than three months	**1,667**	1,640
Restricted cash	**2,990**	–
Collateralised cash	**–**	623,000
	594,005	1,870,268

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

29. CASH AND BANK BALANCES (continued)

Collateralised cash is the cash received as collateral in relation to an agreement of total return swap.

Bank balances carry interest at market rates

	2018	2017
Interest rates range	**0.01%-2.00%**	0.01%-1.94%

30. OTHER PAYABLES AND ACCRUED EXPENSES

	2018 HK$'000	2017 HK$'000
Other payables	**17,410**	13,401
Accrued expenses	**76,957**	24,744
	94,367	38,145

31. ACCOUNTS PAYABLE

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

	2018 HK$'000	2017 HK$'000
Clients – trade settlement	**322,961**	388,080
Clearing house	**44,765**	2,588
Brokers	**128,879**	–
	496,605	390,668

No ageing analysis is disclosed, as in the opinion of the Directors, an ageing analysis does not give additional view of these businesses.

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 Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

32. DEFERRED REVENUE/CONTRACT LIABILITY

	2018 HK$'000	2017 HK$'000
Deferred revenue	–	25,788
Contract liability	**18,128**	–

The Group has adopted HKFRS 15 Revenue from Contracts from 1 January 2018. The obligation of the Group to transfer advisory and fund management services to customers according to consideration received was presented as contract liability and such obligation was presented as deferred revenue as at 31 December 2017.

33. DEFERRED TAX ASSETS

The analysis of deferred tax assets is as follows:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**18,685**	656

The gross movement on the deferred tax assets is as follows:

	2018 HK$'000	2017 HK$'000
Balance at beginning of year	**656**	302
Impact on adoption of HKFRS 9	**13,291**	–
Credited to the income statement (Note 13)	**5,323**	354
Offset deferred tax liabilities	**(130)**	–
Exchange difference arising from translation of foreign operations	**(455)**	–
Balance at end of year	**18,685**	656

33. DEFERRED TAX ASSETS (continued)

The movement in deferred tax assets during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Provision for staff costs HK$'000	Accrued expenses HK$'000	Tax loss HK$'000	Allowance for impairment loss HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	7	68	–	–	227	302
Credited to the income statement	354	–	–	–	–	354
At 31 December 2017	361	68	–	–	227	656
Impact on adoption of HKFRS 9	–	–	–	13,291	–	13,291
At 1 January 2018	361	68	–	13,291	227	13,947
Credited/(charged) to income statement	2	(19)	5,260	–	80	5,323
Offset deferred tax liabilities	–	–	–	–	(130)	(130)
Exchange difference arising from translation of foreign operations	–	–	–	–	(455)	(455)
At 31 December 2018	363	49	5,260	13,291	(278)	18,685

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. Deferred tax assets recognised mainly relate to tax losses carried forward in PRC entities.

	2018 HK$'000	2017 HK$'000
Approximate estimated unused tax losses available for offset against future profits	**276,276**	245,773

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

34. SHARE CAPITAL

	Number of shares		Share capital	
	2018 Thousand Shares	2017 Thousand Shares	2018 HK$'000	2017 HK$'000
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

35. BORROWINGS

(a) Outstanding borrowings

	2018 HK$'000	2017 HK$'000
Bank loans and other borrowings		
Non-current – ultimate holding company (Note 36)	**450,000**	–
Non-current – authorised institutions	**4,538,200**	–
	4,988,200	–
Current – ultimate holding company (Note 36)	**400,000**	2,804,118
Current – authorised institutions	**363,630**	6,641,124
Current – others	**–**	623,000
	763,630	10,068,242
Obligation under repurchase agreements		
Non-current	**478,146**	–
Current	**193,936**	–
	672,082	–
Subordinated loans (Note 36)		
Non-current	**1,000,000**	–
Current	**–**	1,000,000
	1,000,000	1,000,000
Total	**7,423,912**	11,068,242

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

35. BORROWINGS (continued)

(a) Outstanding borrowings (continued)

As at 31 December 2018, the fair value of collateral subject to the repurchase agreements was HK$1,052,775 thousand (31 December 2017: Nil).

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 the return from a margin loan to the counterparties. The arrangement was terminated with agreement by the parties during the year ended 31 December 2018.

(b) Borrowings repayable

	2018 HK$'000	2017 HK$'000
Within 1 year	**957,566**	11,068,242
Between 1 and 2 years	**–**	–
Between 2 and 5 years	**5,466,346**	–
Over 5 years	**–**	–
	6,423,912	11,068,242
Undated	**1,000,000**	–
	7,423,912	11,068,242

As at 31 December 2018, all bank borrowings were unsecured (2017: bank borrowing of HK$300,377 thousand from other independent bank was secured by the preference shares of the Group of HK$430,397 thousand).

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS

Details of the Company's subsidiaries, associates and joint venture are disclosed in Note 18, 19 and 20. During the years ended 31 December 2018 and 2017, the Group entered into the following material transactions with related parties:

(a) Ultimate holding company

	2018 HK$'000	2017 HK$'000
Transaction		
Interest income from deposits*	**3,883**	851
Finance costs	**78,058**	51,861
Commission income*	**1,645**	12,203
Commission expenses*	**3,390**	8,815
Asset management and advisory income*	**7,252**	7,820
Fund management fee income*	**16,689**	6,596
Underwriting fee income*	**547**	623
Rental expenses*	**320**	150
Other operating expenses*	**157**	156
Other operating expenses	**1,320**	1,233
Trading gains from derivative transactions*	**–**	12,485
Trading losses from derivative transactions*	**7,420**	–
Realised gain on financial assets at fair value through profit or loss	**1,948**	3,319
Unrealised gain on financial assets at fair value through profit or loss	**–**	3,856

	2018 HK$'000	2017 HK$'000
Balance of transaction		
Accounts receivable	**–**	17,478
Borrowings	**850,000**	2,804,118
Subordinated loans	**1,000,000**	1,000,000
Derivative financial assets	**5,306**	831
Accounts payable	**31,858**	222,866
Amount due to the ultimate holding company	**3,745**	6,080

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS (continued)

(b) Fellow subsidiaries and associates

	2018 HK$'000	2017 HK$'000
Transaction		
Interest income from deposits*	**79**	–
Commission income*	**8,981**	–
Commission expenses*	**1,413**	–
Asset management and advisory income*	**3,985**	10,803
Asset management and advisory income	**1,544**	–
Underwriting fee income*	**4,293**	5,424
Rental expenses*	**8,984**	8,682
Other operating expenses*	**8,442**	6,875
Fund management fee income	**1,692**	–

	2018 HK$'000	2017 HK$'000
Balance of transaction		
Accounts receivable	**–**	103
Amount due to a fellow subsidiary	**83**	–

(c) Related parties

	2018 HK$'000	2017 HK$'000
Transaction		
Interest income from debt investment	**7,233**	10,859
Fund management fee income*	**–**	8,958
Fund management fee income	**19,388**	25,942

	2018 HK$'000	2017 HK$'000
Balance of transaction		
Gross amount due from related parties	**3,243**	3,392
Less: impairment allowance	**(1)**	–
	3,242	3,392

* The transaction also constituted connected transactions or continuing connected transactions. The details are disclosed under the Report of the Directors section.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel

The key management personnel are those who have the authority and responsibility to plan, direct and control directly or indirectly, the activities of the Group, including members of the Board of Directors and other senior executive.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 10, is as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other short-term employee benefits	**20,524**	17,447
Termination benefits	**–**	–
Post-employment benefits	**–**	–
Other long-term benefits	**1,677**	1,466
Share-based payments	**–**	–
	22,201	18,913

For details of the key management personnel of the Group in 2018, please refer to the section headed "Biographies of Directors and Senior Management" of this annual report.

Notes

(i) Interest income from deposits

In the ordinary course of business, the Group placed its cash and cash equivalents and client monies with Bank of Communications Co., Ltd., Hong Kong Branch and PRC Branches, as well as a fellow subsidiary.

(ii) Finance costs

In the ordinary course of business, the Group obtained subordinated loans and bank loans from its ultimate holding company, Bank of Communications Co., Ltd., Hong Kong Branch, to finance its margin financing activities and daily operations. The above bank borrowings were entered at the relevant market rates at the time of the transactions.

(iii) Commission income

Commission income was derived from the Group's securities brokerage business and determined on terms similar to those transactions conducted with independent third parties.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS (continued)

Notes (continued)

(iv) Commission expenses

The commission expenses represented rebate of brokerage commission income to the ultimate holding company and a fellow subsidiary in respect of the securities brokerage transactions. The rates were mutually agreed by the ultimate holding company/a fellow subsidiary and the Group.

(v) Asset management and advisory income

The Group has agreements with its ultimate holding company, a fellow subsidiary and associates under which the Group provides asset management and investment advisory services in return for asset management and advisory income. The ultimate holding company has also appointed a subsidiary of the Group to provide asset management service to its clients.

(vi) Fund management fee income

The Group has agreements with an associate and its related parties, BOCOM International Dragon Core Growth Fund, Global Strategic Emerging Markets Bond Fund, BOCOM International Global Investment Limited, Horizon Investment Limited, Opportunity Investment Limited, Premium Investment Limited, Prosperity Investment Limited, Apex Investment Limited, BIAM Enhanced Credit Fund as well as the ultimate holding company under which the Group provides asset management and investment advisory services, in return for management fee income.

(vii) Underwriting fee income

Underwriting fee income represented underwriting services provided to the ultimate holding company and a fellow subsidiary in relation to notes issuance.

(viii) Interest income from debt investment

Interest income from debt investment represented the interest income earned from investing in a senior note issued by a related party.

(ix) Bank loans

A portion of the bank loan was obtained from the ultimate holding company. Details of the bank loan are stated in Note 35(a).

(x) Subordinated loans

The subordinated loans from the ultimate holding company are unsecured, bear floating interest and undated. The loan arrangements are under regulatory condition. Details of the subordinated loans are stated in Note 35(a).

(xi) Rental expenses

The office and carpark rental expenses paid to the ultimate holding company and fellow subsidiaries were agreed by the ultimate holding company, fellow subsidiaries and the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

36. RELATED PARTY TRANSACTIONS (continued)

Notes (continued)

(xii) Other operating expenses

The other operating expenses mainly included system usage fee, bank charges, custody fee, professional fee and insurance expense.

(xiii) Trading gains/losses and derivative financial assets from derivative transactions

Trading gains/losses and derivative financial assets from derivatives transactions represented gains/losses from over-the-counter derivatives transactions in respect of commodities entered into between the Group and the ultimate holding company. The Group had effectively offset the risk by entering into exchange-traded futures contracts.

(xiv) Accounts receivable and accounts payable

They were balances due from/to the ultimate holding company and a fellow subsidiary in the Group's ordinary course of business.

(xv) Amount(s) due from/(to) the ultimate holding company/a fellow subsidiary/related parties

The amounts are unsecured, interest-free and repayable on demand and are of trade nature.

37. STRUCTURED ENTITIES

The Group engages in various business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is one that has been set up so that any voting rights or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate only to administrative tasks and the relevant activities are directed by contractual arrangements.

(a) Unconsolidated structured entities

The Group has been involved in unconsolidated structured entities through investments in structured entities or acting as the investment manager of the structured entities. The unconsolidated structured entities consist primarily of special purpose vehicles ("SPV") for investment trading on asset management business. The SPVs invest in a range of assets, most typically are bonds, unit trusts and preference shares. As the manager of the structured entities, the Group invests, on behalf of its clients, in the assets as described in the investment plan related to each fund and receives management fee income. The Group's remuneration as investment manager is limited to management fees and performance fees at market level and does not share significant variable returns of the investment, except for two SPVs, of which the Group has direct interest in an underlying asset. The Group records trading gains or losses from its investment in the structured entities. These structured entities are not consolidated by the Group.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

37. STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

Interests in unconsolidated structured entities and maximum exposure to unconsolidated structured entities

As at 31 December 2018 and 2017, the Group's total interests in unconsolidated structured entities on the consolidated statements of financial position and maximum exposure to loss from its interests in unconsolidated structured entities are summarised in the table below:

	2018 HK$'000	2017 HK$'000
Available-for-sale investment	**–**	617,638
Financial assets at fair value through other comprehensive income	**116,119**	–
Financial assets at fair value through profit or loss	**30,812**	36,944
Maximum exposure to loss	**3,132,369**	1,640,159

The Group's maximum exposure to loss is greater than the carrying amount of the Group's investments as the Group provides guarantee on the investment principal and return to one of the unconsolidated structured entities. However, the Group is of the view that the guaranteed return matches the expected portfolio return, hence the guaranteed return does not increase the risk of its involvement in this structured entity.

Size of unconsolidated structured entities

The size of structured entities is measured by the fair value of investments managed by the unconsolidated structured entities. As at 31 December 2018 and 2017, the fair value of investments managed by the unconsolidated structured entities are summarised in the table below:

	2018 HK$'000	2017 HK$'000
Fair value of investments managed by the unconsolidated structure entities	**17,220,632**	18,996,893

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

37. STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

Transactions with unconsolidated structured entities

For the years ended 31 December 2018 and 2017, the Group earned management fees for its investment management service in relation to fund. Interest income is recognised on the loans provided to structured entities and interest earned on holding the senior notes issued by structured entities. The total income derived from involvement with unconsolidated structured entities are summarised in the table below.

	2018 HK$'000	2017 HK$'000
Management fee income	**50,858**	52,325
Interest income	**7,462**	14,870
	58,320	67,195

(b) Consolidated structured entities managed and held by the Group

The Group has consolidated certain structured entities which are funds for investment trading on asset management business. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. The Group concludes that these structured entities shall be consolidated.

The size of consolidated structured entities is measured by the fair value of investments managed by the consolidated structured entities. As at 31 December 2018 and 2017, the fair value of investments managed by the consolidated structured entities are summarised in the table below:

	2018 HK$'000	2017 HK$'000
Fair value of investments managed by the consolidated structure entities	**36,572**	135,906

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

37. STRUCTURED ENTITIES (continued)

(b) Consolidated structured entities managed and held by the Group (continued)

The financial impact of any individual fund on the Group's financial performance is not significant.

During the years ended 31 December 2018 and 2017, the Group did not provide financial support for any of the consolidated structured entities.

There were no contractual liquidity arrangements or other commitments between the Group, structured entities or any third parties that could increase the level of the Group's risk from or reduce its interest in structured entities during the years ended 31 December 2018 and 2017. No loss was incurred by the structured entities relating to the Group's interests in the structured entities, and the structured entities did not experience difficulty in financing their activities.

38. 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:

	2018 HK$'000	2017 HK$'000
No later than 1 year	**70,742**	41,201
Later than 1 year and no later than 5 years	**79,505**	34,344
	150,247	75,545

Investment commitments

At the end of the reporting period, the Group had certain investment commitments contracted for at the end of the reporting period but not yet incurred. The amounts will be drawn down on as-needed basis. The table below provides further information regarding the commitments:

	2018 HK$'000	2017 HK$'000
Unfunded commitments	**274,803**	78,020

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

39. 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 2018, the average yield of investment portfolio had been below the guaranteed return and the Group has paid the client HK$840,000 equivalent of guarantee fee as "other operating expense" to fulfil the guarantee provided.

40. FINANCIAL RISK MANAGEMENT

40.1 Financial risk factors

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, receivable from reverse repurchase agreements, amount due from related parties, cash and bank balances, accounts payable, borrowings, obligation under repurchase agreements, subordinated loans from the ultimate holding company and amount due to the ultimate holding company/a fellow subsidiary. 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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

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.

(a) Market risk

Market risk refers to the adverse effect that normal or specific changes in foreign exchange rates, interest rates, commodity prices or stock prices may have on products involving interest rates, currencies and stocks. The Group's market risk mainly includes currency risk, interest rate risk and other price risks. The market risk management aims to manage and monitor market risk, keep the potential losses associated with market risk within an acceptable level and maximise the returns.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Summary of financial assets and liabilities

	2018 HK$'000	2017 HK$'000
Financial assets		
Other assets	**22,867**	42,042
Loans and advances	**1,425,351**	1,478,120
Accounts receivable	**641,190**	560,990
Other receivables	**234,979**	163,047
Margin loans to customers	**3,918,371**	6,416,790
Receivable from reverse repurchase agreements	**625,181**	–
Amounts due from related parties	**3,242**	3,392
Available-for-sale investments	**–**	4,524,786
Financial assets at fair value through other comprehensive income	**2,503,218**	–
Financial assets at fair value through profit or loss	**4,141,644**	2,757,659
Derivative financial assets	**5,306**	831
Cash and bank balances	**594,005**	1,870,268
	14,115,354	17,817,925
Financial liabilities		
Borrowings	**5,751,830**	10,068,242
Subordinated loans from the ultimate holding company	**1,000,000**	1,000,000
Obligation under repurchase agreements	**672,082**	–
Other payables	**17,410**	13,401
Accounts payable	**496,605**	390,668
Amount due to the ultimate holding company	**3,745**	6,080
Amount due to a fellow subsidiary	**83**	–
Financial liabilities at fair value through profit or loss	**30,960**	18,858
Derivative financial liabilities	**5,289**	803
	7,978,004	11,498,052

(ii) Currency risk

The Group undertakes certain transactions denominated in foreign currencies; hence exposures to exchange rate fluctuations arise.

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

The carrying amount of the Group's major foreign currency denominated monetary assets and monetary liabilities at year end is as follows:

	As at 31 December 2018				
	HKD	USD (in HKD equivalent)	RMB (in HKD equivalent)	Other foreign currencies (in HKD equivalent)	Total
Financial assets					
Other assets	21,654	–	1,213	–	22,867
Accounts receivable	275,926	338,024	18,901	8,339	641,190
Other receivables	47,208	90,357	97,414	–	234,979
Loan and advances	809,925	615,426	–	–	1,425,351
Margin loans to customers	3,681,856	235,963	–	552	3,918,371
Receivable from reverse repurchase agreements	–	625,181	–	–	625,181
Amounts due from related parties	888	2,354	–	–	3,242
Financial assets at fair value through other comprehensive income	41,662	2,394,992	9,182	57,382	2,503,218
Financial assets at fair value through profit or loss	298,710	3,810,884	32,050	–	4,141,644
Derivative financial assets	–	5,306	–	–	5,306
Cash and bank balances	258,530	125,599	196,647	13,229	594,005
Total financial assets	5,436,359	8,244,086	355,407	79,502	14,115,354
Financial liabilities					
Borrowings	1,400,000	4,351,830	–	–	5,751,830
Subordinated loans from the ultimate holding company	1,000,000	–	–	–	1,000,000
Obligation under repurchase agreements	–	672,082	–	–	672,082
Other payables	16,944	–	466	–	17,410
Accounts payable	171,789	299,923	21,722	3,171	496,605
Amount due to the ultimate holding company	3,745	–	–	–	3,745
Amount due to a fellow subsidiary	83	–	–	–	83
Financial liabilities at fair value through profit or loss	–	19,550	11,410	–	30,960
Derivative financial liabilities	–	5,289	–	–	5,289
Total financial liabilities	2,592,561	5,348,674	33,598	3,171	7,978,004
Net on-balance sheet position	2,843,798	2,895,412	321,809	76,331	6,137,350

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

	As at 31 December 2017				
	HKD	USD (in HKD equivalent)	RMB (in HKD equivalent)	Other foreign currencies (in HKD equivalent)	Total
Financial assets					
Other assets	38,313	–	3,729	–	42,042
Accounts receivable	448,616	87,747	20,741	3,886	560,990
Other receivables	67,937	79,933	15,177	–	163,047
Loan and advances	195,714	1,282,406	–	–	1,478,120
Margin loans to customers	6,306,728	108,243	1,819	–	6,416,790
Amounts due from related parties	1,430	1,904	58	–	3,392
Available-for-sale investments	335,111	4,126,846	3,292	59,537	4,524,786
Financial assets at fair value through profit or loss	230,863	2,383,556	143,240	–	2,757,659
Derivative financial assets	–	831	–	–	831
Cash and bank balances	1,532,200	278,371	51,145	8,552	1,870,268
Total financial assets	9,156,912	8,349,837	239,201	71,975	17,817,925
Financial liabilities					
Borrowings	4,733,000	5,335,242	–	–	10,068,242
Subordinated loans from the ultimate holding company	1,000,000	–	–	–	1,000,000
Other payables	10,610	2,789	2	–	13,401
Accounts payable	359,074	24,326	7,260	8	390,668
Amount due to the ultimate holding company	6,038	42	–	–	6,080
Financial liabilities at fair value through profit or loss	–	–	18,858	–	18,858
Derivative financial liabilities	–	803	–	–	803
Total financial liabilities	6,108,722	5,363,202	26,120	8	11,498,052
Net on-balance sheet position	3,048,190	2,986,635	213,081	71,967	6,319,873

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

Currency risk refers to the risk that the Group's financial position with respect to foreign currency exposure will be affected as a result of fluctuations in major foreign exchange rates. The Group's currency risk mainly exposes to Renminbi, United States dollar and Singapore dollar currently. The directors of the Company consider the exchange rate of Hong Kong dollar against United States dollar is relatively stable under the current pegged rate system in Hong Kong. The other foreign currencies are not material compared to the total assets and liabilities of the Group. In the opinion of the directors, the Group are not subject to significant currency risk exposure.

Sensitivity analysis

The following table details the Group's sensitivity to a 10% change in Hong Kong dollar against the relevant foreign currencies. The 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at year end for a 10% change in foreign currency rate. The number shown below indicates an increase in profit where Hong Kong dollar weakens against the relevant currency. For a 10% strengthening of Hong Kong dollar against the relevant currency, there would be an equal and opposite impact on the profit.

Impact on profit after taxation

	2018 HK$'000	2017 HK$'000
RMB	**26,871**	17,792
Other foreign currencies	**6,374**	6,009

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk

The table below presents the residual maturities of the Group's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

As at 31 December 2018	Overdue HK$'000	Within 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial assets								
Other assets	-	-	-	-	-	-	22,867	22,867
Loans and advances	-	-	-	1,269,215	156,136	-	-	1,425,351
Accounts receivable	-	641,190	-	-	-	-	-	641,190
Other receivables	-	-	-	-	-	-	234,979	234,979
Margin loans to customers	-	3,918,371	-	-	-	-	-	3,918,371
Receivable from reverse repurchase agreements	-	625,181	-	-	-	-	-	625,181
Amounts due from related parties	-	-	-	-	-	-	3,242	3,242
Financial assets at fair value through other comprehensive income	-	-	39,187	173,712	798,518	295,258	1,196,543	2,503,218
Financial assets at fair value through profit or loss	-	-	10,692	196,323	677,281	-	3,257,348	4,141,644
Derivative financial assets	-	-	-	-	-	-	5,306	5,306
Cash and bank balances	-	592,338	-	1,667	-	-	-	594,005
	-	5,777,080	49,879	1,640,917	1,631,935	295,258	4,720,285	14,115,354

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

As at 31 December 2018	Overdue HK$'000	Within 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial liabilities								
Borrowings	-	5,751,830	-	-	-	-	-	5,751,830
Subordinated loans from the ultimate holding company	-	1,000,000	-	-	-	-	-	1,000,000
Obligation under repurchase agreements	-	672,082	-	-	-	-	-	672,082
Other payables	-	-	-	-	-	-	17,410	17,410
Accounts payable	-	-	-	-	-	-	496,605	496,605
Amount due to the ultimate holding company	-	-	-	-	-	-	3,745	3,745
Amount due to a fellow subsidiary	-	-	-	-	-	-	83	83
Financial liabilities at fair value through profit or loss	-	-	-	-	-	-	30,960	30,960
Derivative financial liabilities	-	-	-	-	-	-	5,289	5,289
	-	7,423,912	-	-	-	-	554,092	7,978,004
Interest rate sensitivity gap	-	(1,646,832)	49,879	1,640,917	1,631,935	295,258	4,166,193	6,137,350

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

As at 31 December 2017	Overdue HK$'000	Within 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial assets								
Other assets	–	–	–	–	–	–	42,042	42,042
Loans and advances	–	–	–	1,093,548	384,572	–	–	1,478,120
Accounts receivable	–	560,990	–	–	–	–	–	560,990
Other receivables	–	–	–	–	–	–	163,047	163,047
Margin loans to customers	–	6,416,790	–	–	–	–	–	6,416,790
Amounts due from related parties	–	–	–	–	–	–	3,392	3,392
Available-for-sale investments	–	–	100,000	286,810	1,479,798	681,284	1,976,894	4,524,786
Financial assets at fair value through profit or loss	–	–	–	118,712	450,804	1,829	2,186,314	2,757,659
Derivative financial assets	–	–	–	–	–	–	831	831
Cash and bank balances	–	1,868,628	–	1,640	–	–	–	1,870,268
	–	8,846,408	100,000	1,500,710	2,315,174	683,113	4,372,520	17,817,925

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

As at 31 December 2017	Overdue HK$'000	Within 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial liabilities								
Borrowings	–	9,767,865	300,377	–	–	–	–	10,068,242
Subordinated loans from the ultimate holding company	–	1,000,000	–	–	–	–	–	1,000,000
Other payables	–	–	–	–	–	–	13,401	13,401
Accounts payable	–	–	–	–	–	–	390,668	390,668
Amount due to the ultimate holding company	–	–	–	–	–	–	6,080	6,080
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	18,858	18,858
Derivative financial liabilities	–	–	–	–	–	–	803	803
	–	10,767,865	300,377	–	–	–	429,810	11,498,052
Interest rate sensitivity gap	–	(1,921,457)	(200,377)	1,500,710	2,315,174	683,113	3,942,710	6,319,873

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to the "margin loans to customers", "cash and bank balances", "borrowings" and "subordinated loans from the ultimate holding company" as well as interest-bearing "accounts receivable", "receivable from reverse repurchase agreements" and "loans and advances" carried at amortised costs with floating interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank Offered Rate ("LIBOR") as its interest-bearing assets and liabilities are mainly Hong Kong dollar and United States Dollar denominated. The Group mainly manages interest rate risk through adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risk by diversification of assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

	2018 HK$'000	2017 HK$'000
Assets		
Accounts receivable – dealing in securities and futures	**626,076**	515,995
Margin loans to customers	**3,918,371**	6,416,790
Receivable from reverse repurchase agreements	**625,181**	–
Loans and advances	**1,425,351**	1,478,120
Cash and bank balances	**594,005**	1,870,268
Liabilities		
Borrowings	**(5,751,830)**	(10,068,242)
Subordinated loans from the ultimate holding company	**(1,000,000)**	(1,000,000)
Obligation under repurchase agreements	**(672,082)**	–
	(234,928)	(787,069)

The following table illustrates the potential impact, of a parallel upward or downward shift of 25 basis points in interest rate curves on the Group's net profit for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at year end.

Change in basis points

	31 December			
	2018		2017	
	+25 HK$'000	-25 HK$'000	+25 HK$'000	–25 HK$'000
Impact on profit after taxation	**(490)**	**490**	(1,643)	1,643

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to investments in debt securities classified as financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss carried at fixed interest rate. The Group monitors the interest rate risks by quantifying market exposure in duration terms.

The Group's fair value interest rate risk exposure is summarised as follows:

	2018 HK$'000	2017 HK$'000
Available-for-sale investments – debt	**–**	2,547,892
Financial assets at fair value through other comprehensive income – debt	**1,306,675**	–
Financial assets at fair value through profit or loss – debt	**444,031**	571,345

The following table illustrates the potential impact, of a parallel upward or downward shift of 25 basis points in interest rate curves on the Group's net profit and equity for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period.

Change in basis points

	31 December			
	2018		2017	
	+25	-25	+25	–25
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation	**(1,298)**	**1,302**	(1,509)	1,518
Impact on equity	**(8,062)**	**8,163**	(14,338)	14,528

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(iv) Other price risk

The Group are exposed to equity price risk because of investments held by the Group and classified on the consolidated statement of financial position as financial assets at fair value through other comprehensive income, and at fair value through profit or loss. The directors of the Company manage the exposure by closely monitoring the portfolio of investments.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 percent change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

Profit after taxation for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as fair value through other comprehensive income.

Financial assets at fair value through other comprehensive income/Available-for-sale investments

	2018 HK$'000	2017 HK$'000
– Listed equity securities	**2,475**	1,573
– Preference shares	**1,127,504**	1,715,970
– Unlisted fund	**–**	197,715
– Unlisted equity	**66,564**	59,537
	1,196,543	1,974,795
Impact on equity		
Increases by 10%	**119,654**	197,480
Decreases by 10%	**(119,654)**	(197,480)

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(iv) Other price risk (continued)

Financial assets at fair value through profit or loss

	2018 HK$'000	2017 HK$'000
– Listed equity securities	**182,873**	43,200
– Preference shares	**1,037,617**	346,331
– Funds	**30,812**	36,944
– Unlisted fund	**1,925,854**	1,663,185
– Unlisted equity	**78,200**	10,306
– Equity-linked loan	**440,266**	–
	3,695,622	2,099,966
Impact on profit after taxation		
Increases by 10%	**308,584**	175,347
Decreases by 10%	**(308,584)**	(175,347)

Derivative financial assets

	2018 HK$'000	2017 HK$'000
Derivative financial assets	**5,306**	831
Impact on profit after taxation		
Increases by 10%	**443**	69
Decreases by 10%	**(443)**	(69)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(a) Market risk (continued)

(iv) Other price risk (continued)

Financial liabilities at fair value through profit or loss

	2018 HK$'000	2017 HK$'000
Financial liabilities to the investors of the funds consolidated	**(11,410)**	(18,858)
Structured note payable	**(19,550)**	–
	(30,960)	(18,858)
Impact on profit after taxation		
Increases by 10%	**(2,585)**	(1,575)
Decreases by 10%	**2,585**	1,575

Derivative financial liabilities

	2018 HK$'000	2017 HK$'000
Derivative financial liabilities	**(5,289)**	(803)
Impact on profit after taxation		
Increases by 10%	**(442)**	(67)
Decreases by 10%	**442**	67

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk

The Group's credit risk arises from the possibility that a client or counterparty in a transaction may default. Credit exposures arise principally in debt securities carried at fair value through other comprehensive income and at fair value through profit or loss, derivative financial assets, accounts receivable, loans and advances, receivable from reverse repurchase agreements, margin loans to customers, other assets, amount(s) due from the ultimate holding company/subsidiaries/an associate/related parties, other receivables, cash and bank balances and subordinated loans to subsidiaries. In order to minimise the credit risk, the Group has credit policies in place and the exposure to this risk is monitored on an ongoing basis. The Group employs a range of policies and practises to mitigate credit risk.

The Credit Committee is mainly in charge of the risk management of the securities brokerage and margin financing business and the implementation of the credit risk policies. The primary responsibilities of the Credit Committee include: (i) monitoring the risk management performance with reference to the various risk indicators, such as the loan-to-margin ratio and loan-to-value ratio, the percentage of margin loans attributable to the Group's top 20 customers by loan balance, and margin loan balance attributable to a single client; (ii) maintaining a list of shares qualified as collateral for the margin financing business and reviewing such list periodically; (iii) approving customers' applications on trading limit and credit limit; and (iv) developing risk management policies for transactions of cash accounts and institutional clients as well as settlement arrangements.

The Risk Management Committee is primarily responsible for designing the risk management structure and strategies for the principal businesses, reviewing and monitoring the implementation of risk management policies for the principal businesses, identifying risks and updating the risk management policies in response to changes. The Credit Risk Team of the Risk Management Department is responsible for the credit risk management of the securities brokerage and margin financing business, participating in the review process and supervising the relevant risk management work.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group seeks to control the credit risk exposure within the tolerance level and maximise the risk adjusted returns by identifying, quantifying, monitoring and managing credit risk based on the risk preference and net capital level. The Group has established a credit risk management framework covering all stages from due diligence, credit review and collateral management to post-loan credit examination. The Group monitors the loan-to-margin ratio and loan-to-value ratio on a regular basis of each client to whom the Group has provided financing and take appropriate actions to recover or minimise the losses. A daily report on the client's outstanding loan amount, value of the collateral and loan-to-margin and loan-to-value ratio is generated for the Group's ongoing monitoring and review. The Group has utilised tools such as limit indicators, admission criteria, due diligence standards and internal audit requirements in developing the business in accordance with the Group's risk appetite.

Maximum exposure to credit risk before collateral held or other credit enhancement:

	2018 HK$'000	2017 HK$'000
Other assets	**22,867**	42,042
Loans and advances	**1,425,351**	1,478,120
Accounts receivable	**641,190**	560,990
Other receivables	**234,979**	163,047
Margin loans to customers	**3,918,371**	6,416,790
Receivable from reverse repurchase agreements	**625,181**	–
Amounts due from related parties	**3,242**	3,392
Available-for-sale investments – debt	**–**	2,547,892
Financial assets at fair value through other comprehensive income – debt	**1,306,675**	–
Financial assets at fair value through profit or loss – debt	**444,031**	571,345
Derivative financial assets	**5,306**	831
Cash and bank balances	**594,005**	1,870,268
	9,221,198	13,654,717

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

Other assets

Other assets are mainly guarantee fund and reserve funds maintained with Central Clearing and Settlement System, Hong Kong Futures Exchange ("HKFE") Clearing Corporation Limited and SEHK Options Clearing House Limited ("SEOCH").

Loans and advances

The Group assesses credit risk of loans to corporate clients by performing credit assessments, which are also subject to regular review and monitoring.

For the loans guaranteed by a third party, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

Risk Management Department provides regular credit management information reports and ad hoc reports to the Risk Committee, Investment Committee and Board of Directors to facilitate their continuous monitoring of credit risk. In addition, the Group identifies credit concentration risk by industry, geography, client and counterparty. The Group monitors changes to counterparty risk, quality of the credit portfolio and concentration risk, and reports regularly to the Group's Management.

The Group adopts loan grading criteria which divides credit assets into five categories with reference to the regulator's guidelines and alignment with the regulation of parent company – Bank of Communications Co., Ltd. as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Group's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

Loans and advances (continued)

"Doubtful" represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Receivable from reverse repurchase agreements

To manage the credit risk associated with repurchase transactions, the Group performs due diligence and credit assessments on counterparties. A repurchase agreement will only be executed with eligible counterparties. In addition, only eligible securities will be accepted as collaterals with haircut depending on the collaterals' credit quality. The collateral value will be closely monitored. If collateral value drops below the requirement, additional collateral will be required and other follow-up actions will be arranged.

Accounts receivable

For accounts receivable arising from the Group's corporate finance and underwriting activities, due diligence on client's business and repayment ability will be conducted before granting of credit. Corporate Finance, Equity Capital Markets and Debt Capital Markets Department will closely update the client's business change through frequent contact with client. Exit strategies are set in place before granting of each credit.

Credit risk from client securities dealing receivables under securities brokerage business is normally controlled through delivery-against-payment settlement and custody arrangement.

Evaluations, supplemented by assessments of underlying collaterals, are performed on all clients requiring credit. Those receivables arising from cash client accounts are due on two to three days after the trade date.

Other receivables

Based on past experience, the management believes that there has not been a significant change in credit quality of other receivables and the balance is still considered recoverable as most of the clients have no recent history of default and have a good track record with the Group. Impairment allowance was recognised using ECL model under the requirements of HKFRS 9.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

Margin loans to customers

Margin clients of the Group are required to pledge their security investments to the Group for the facilities for securities trading. The amount of facilities granted to them is determined by the discounted values of the shares and is monitored on an ongoing basis.

The collateral for covering the credit risk exposure in case of default is subject to mark-to-market monitoring on a daily basis. Default, margin call and forced liquidation procedures are in place for margin clients. When a customer's margin loan balance exceeds the credit limit granted or a customer's loan-to-margin ratio exceeds 100%, the Group will generate an alerter to help monitor its status and decide whether any additional collateral are required. Amongst the customers with loan-to-margin ratio in excess of 200%, the Group will take into consideration of various factors such as customers' background and the interest rate of loan, in particular, the loan-to-value ratio in excess of 70% in making requests for additional collateral.

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 accepted by the Group.

Amount(s) due from the ultimate holding company/subsidiaries/associates/related parties

Amount(s) due from the ultimate holding company/subsidiaries/associates/related parties represents various income receivable arising from normal business transactions. The amounts are unsecured, interest-free and repayable on demand.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

Debt securities

Debt securities are classified as financial assets at fair value through other comprehensive income and at fair value through profit or loss. The debt securities are mainly listed in The Hong Kong Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange and some overseas exchanges. The Investment Committee of the Group assesses the financial strengths and performance of the issuers to ensure the issuers satisfy the repayment of principal and interest as they fall due. The Committee limits the size of the debt portfolio and limits the exposure to a single industry and issuer in order to control the credit risk. The Committee also closely monitors the changes in the credit ratings of the issuers and follows the market news for taking immediate actions if there is an indication of a deterioration of the repayment ability of the issuers.

Derivative financial assets

Derivative financial assets are commodity futures traded in active markets. The credit risk exposure is determined by the change in the market prices of the derivatives. The Group manages the credit risk by monitoring counterparty's credit rating and limiting its trades with stock exchanges.

Cash and bank balances

Cash and bank balances are placed in various authorised institutions and the directors of the Group consider the credit risk arising from cash and bank balances is minimal.

Credit quality – debt securities and derivative financial instruments

The credit quality of debt securities and derivative financial instruments can be assessed by reference to credit ratings obtained from major rating agencies in the country where debt and derivative issuers are located (if available) or to historical information about counterparty default rates.

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

Financial assets at fair value through other comprehensive income – debt/Available-for-sales investments – debt

	2018 HK$'000	2017 HK$'000
Standard & Poor's rating:		
BBB+	**62,448**	67,490
BBB	**232,810**	266,546
BB+	**–**	55,091
BB	**19,797**	–
BB-	**19,245**	38,372
B	**–**	231,719
B-	**206,673**	381,505
Moody's rating:		
Ba1	**–**	347,248
B2	**146,121**	156,021
B3	**128,290**	49,122
Caa1	**140,796**	–
No rating[1]	**350,495**	954,778
	1,306,675	2,547,892

[1] Financial assets with no rating represent listed and unlisted corporate debts.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

Financial assets at fair value through profit or loss – debt

	2018 HK$'000	2017 HK$'000
Standard & Poor's rating:		
A+	**3,909**	–
AA-	**–**	3,386
BB-	**–**	139,342
Fitch's rating:		
BBB	**10,692**	–
B+	**19,627**	–
Moody's rating:		
Ba1	**163,158**	–
Baa1	**35,246**	109,219
No rating[1]	**211,399**	319,398
	444,031	571,345

[1] Financial assets with no rating represent listed and unlisted corporate debts.

Derivative financial assets

	2018 HK$'000	2017 HK$'000
No rating	**5,306**	831

Derivative financial liabilities

	2018 HK$'000	2017 HK$'000
Standard & Poor's rating:		
A-	**5,289**	803

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group has eight types of financial assets that are subject to the expected credit loss model:

– Loans and advances
– Receivable from reverse repurchase agreements
– Debt securities carried at FVOCI
– Margin loans to customers
– Accounts receivable
– Other receivables
– Amount due from related parties, and
– Cash and bank balances.

While cash and cash equivalents 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 financial instruments. 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.

In calculating the expected credit loss rates, forward looking macroeconomic information, such as unemployment rate or gross domestic product ("GDP"), is incorporated as part of risk parameters estimation.

Various economic scenarios are considered such that a probability-weighted average ECL can be estimated. Three scenarios are proposed, i.e. good scenario, neutral scenario and bad scenario. By considering the corresponding probabilities of the scenarios, the probability-weighted average ECL can be estimated.

To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering both quantitative and qualitative information. Stages are determined by significant credit deterioration criteria, including days past due, loan classification grade and rating notch downgrade since initial recognition. Usually, it should be regarded as a significant increase in credit risk if the overdue exceeds 30 days.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group considers a financial instrument is default, when it is credit-impaired. Generally, overdue for more than 90 days on contractual payment terms is considered default. The default definition applied by the Group is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and qualitative indicators have been considered when appropriate. In addition, other factors which cause significant increase in credit risk are considered according to qualitative reasoning and expert judgment.

The Group has applied a 'three-stage' impairment model for expected credit loss measurement based on changes in credit quality since initial recognition of financial assets as summarised below:

Stage 1: A loss allowance for a financial instrument should be measured at an amount equal to 12-month ECL if the credit risk on that financial instrument has not increased significantly since initial recognition.

Stage 2: A loss allowance for a financial instrument should be measured at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition.

Stage 3: Lifetime ECL are recognised on the financial instrument if the credit risk of a financial instrument increases to the point that it is considered credit-impaired.

The financial assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

No significant changes to estimation techniques or assumptions were made during the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

As at 31 December 2018, the Group's credit risk exposure of financial instruments for which an ECL allowance is recognised as follows according to the stage of ECL:

	Stage of assets				
	Stage 1	Stage 2	Stage 3	Impairment	
			Lifetime ECL	allowance under	
	12-month ECL	Lifetime ECL	(credit-impaired)	HKAS 39	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
(a) *Margin loans to customers*					
As at 31 December 2017	–	–	–	28,031	28,031
Amount restated through opening retained earnings on adoption of HKFRS 9	45,452	1,137	52,855	(28,031)	71,413
As at 1 January 2018	45,452	1,137	52,855	–	99,444
Increases	6,201	167	25,996	–	32,364
Reverses	(41,050)	(87)	–	–	(41,137)
Write-off	–	–	–	–	–
Transfers between stages					
– Increase	1,093	127	–	–	1,220
– Decrease	(127)	(1,093)	–	–	(1,220)
As at 31 December 2018	11,569	251	78,851	–	90,671
(b) *Accounts receivable, other receivables and amounts due from related parties*					
As at 31 December 2017	–	–	–	–	–
Amount restated through opening retained earnings on adoption of HKFRS 9	424	–	9,088	–	9,512
As at 1 January 2018	424	–	9,088	–	9,512
Increases	–	–	–	–	–
Reverses	(143)	–	(7,405)	–	(7,548)
Write-off	–	–	–	–	–
Transfers between stages					
– Increase	–	–	–	–	–
– Decrease	–	–	–	–	–
As at 31 December 2018	281	–	1,683	–	1,964

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) *Credit risk (continued)*

	Stage of assets				
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL (credit-impaired) HK$'000	Impairment allowance under HKAS 39 HK$'000	Total HK$'000
(c) *Debt investments at FVOCI*					
As at 31 December 2017	–	–	–	–	–
Amount restated through opening retained earnings on adoption of HKFRS 9	13,373	–	–	–	13,373
As at 1 January 2018	13,373	–	–	–	13,373
Increases	4,186	–	–	–	4,186
Reverses	(5,188)	–	–	–	(5,188)
Write-off	–	–	–	–	–
Transfers between stages					
– Increase	–	–	–	–	–
– Decrease	–	–	–	–	–
As at 31 December 2018	12,371	–	–	–	12,371
(d) *Other financial assets at amortised cost*					
As at 31 December 2017	–	–	–	270,970	270,970
Amount restated through opening retained earnings on adoption of HKFRS 9	5,750	–	270,970	(270,970)	5,750
As at 1 January 2018	5,750	–	270,970	–	276,720
Increases	1,918	–	–	–	1,918
Reverses	(5,373)	–			(5,373)
Write-off	–	–	–	–	–
Transfers between stages					
– Increase	–	–	–	–	–
– Decrease	–	–	–	–	–
As at 31 December 2018	2,295	–	270,970	–	273,265

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

Analysis of the gross carrying amount of financial instruments for which an ECL allowance is recognised is as follows according to the stage of ECL:

	Stage of assets			
	Stage 1	Stage 2	Stage 3	
			Lifetime ECL	
	12-month ECL	Lifetime ECL	(credit-impaired)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
(a) *Margin loans to customers*				
Gross carrying amount as at 1 January 2018	5,951,124	352,939	140,758	6,444,821
Increases	817,649	3,970	6,546	828,165
Decreases	(2,999,635)	(246,157)	(18,152)	(3,263,944)
Write-off	–	–	–	–
Transfers between stages				
– Increase	277,361	481,153	12,064	770,578
– Decrease	(492,829)	(277,749)	–	(770,578)
As at 31 December 2018	3,553,670	314,156	141,216	4,009,042
(b) *Accounts receivable, other receivables and amount due from related parties*				
Gross carrying amount as at 1 January 2018	718,342	–	9,087	727,429
Increases	161,351	–	–	161,351
Decreases	–	–	(7,405)	(7,405)
Write-off	–	–	–	–
Transfers between stages				
– Increase	–	–	–	–
– Decrease	–	–	–	–
As at 31 December 2018	879,693	–	1,682	881,375

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

	Stage of assets			
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL (credit-impaired)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
(c) *Debt investments at FVOCI*				
Gross carrying amount as at 1 January 2018	2,166,835	–	–	2,166,835
Increases	323,817	–	–	323,817
Decreases	(1,183,977)	–	–	(1,183,977)
Write-off	–	–	–	–
Transfers between stages				
– Increase	–	–	–	–
– Decrease	–	–	–	–
As at 31 December 2018	1,306,675	–	–	1,306,675
(d) *Other financial assets at amortised cost*				
Gross carrying amount as at 1 January 2018	1,478,120	–	270,970	1,749,090
Increases	1,748,639	–	–	1,748,639
Decreases	(1,173,932)	–	–	(1,173,932)
Write-off	–	–	–	–
Transfers between stages				
– Increase	–	–	–	–
– Decrease	–	–	–	–
As at 31 December 2018	2,052,827	–	270,970	2,323,797

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

The following tables show the credit exposure to financial instruments as at 31 December 2018:

	Stage of assets				
	Stage 1	Stage 2	Stage 3		
	12-month ECL	Lifetime ECL	Lifetime ECL (credit-impaired)	Impairment allowance	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Margin loans to customers	3,553,670	314,156	141,216	(90,671)	3,918,371
Accounts receivable, other receivables and amounts due from related parties	879,693	–	1,682	(1,964)	879,411
Debt investments at FVOCI	1,306,675	–	–	(12,371)	1,294,304
Other financial assets at amortised cost	2,052,827	–	270,970	(273,265)	2,050,532

The below disclosures were included in our 2017 annual report and do not reflect the adoption of HKFRS 9. As the table is not directly comparable to the current 2018 tables, which are disclosed on a HKFRS 9 basis, the 2017 disclosures below have been shown and not adjacent to 2018 table.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

At 31 December 2017	Neither past due nor impaired HK'000	Past due but not impaired HK'000	Impaired HK'000	Impairment allowance HK'000	Total HK'000
– Clients	165,399	432	–	–	165,831
– Brokers	87,989	–	–	–	87,989
– Clearing house	262,175	–	–	–	262,175
– Corporate finance services	2,736	1,467	–	–	4,203
– Underwriting business	33,427	7,365	–	–	40,792
Accounts receivable	551,726	9,264	–	–	560,990
Loans and advances	1,478,120	–	270,970	(270,970)	1,478,120
Margin loans to customers	6,375,906	–	68,915	(28,031)	6,416,790

For accounts receivable and margin loans to customers, the market value of securities pledged as collateral held by the Group was greater than outstanding balances.

The table below showed the market value of securities pledged as collateral from clients:

	2018 HK$'000	2017 HK$'000
Total market value of securities pledged as collateral in respect of margin loans to customers	**17,348,956**	20,047,406
Total market value of securities pledged as collateral in respect of overdue accounts receivable – clients	**339,119**	211,662

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) Credit risk (continued)

Ageing analysis of past due accounts receivable

Accounts receivable

	Less than 30 days HK'000	31 to 60 days HK'000	61 to 90 days HK'000	More than 90 days HK'000	Total HK'000
At 31 December 2018					
Clients	**122**	**66**	**5**	**145**	**338**
Corporate finance services	**–**	**–**	**–**	**387**	**387**
Underwriting business	**–**	**–**	**–**	**1,560**	**1,560**
	122	**66**	**5**	**2,092**	**2,285**
At 31 December 2017					
Clients	143	3	–	286	432
Corporate finance services	–	–	–	1,467	1,467
Underwriting business	34	–	–	7,331	7,365
	177	3	–	9,084	9,264

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(b) *Credit risk (continued)*

For loans and advances, the Group assess the loans using the following credit grading assessment.

Gross loans and advances – grading

	2018 HK$'000	2017 HK$'000
Pass	**1,427,613**	1,478,120
Special Mention	**–**	–
Substandard	**–**	–
Doubtful	**–**	–
Loss	**270,970**	270,970
	1,698,583	1,749,090

The table below showed the market value of collateral from loans and advances.

	2018 HK$'000	2017 HK$'000
Total market value of collateral in respect of loans and advances	**4,096,150**	1,457,138

(c) *Liquidity risk*

Liquidity risk refers to the risk of the Group's failure to obtain sufficient funds at a reasonable cost and in a timely manner to pay due debts, perform other payment obligations and satisfy the capital requirements to carry on the Group's businesses in the ordinary course. The licensed subsidiaries are required to maintain at all times liquid capital no less than the stipulated level under the Financial Resources Rules, and report to the SFC our liquidity positions on a monthly basis. The Group is responsible for the management of liquidity risk with the aim to maintain sufficient cash and marketable securities, ensure the availability of funding through an adequate amount of committed credit facilities and assess the ability to close out market positions.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(c) *Liquidity risk (continued)*

The Finance and Accounting Department is responsible for compiling a daily cash position report in which the information of bank balances and loan balances of different maturities, expected cash inflows and outflows and outstanding loan facilities are all forecasted and computed. The Department would base on the report to monitor daily liquidity risk and foresee if any funding is required. Besides, some of the subsidiaries of the Group are regulated by SFC, those subsidiaries' liquid capital are calculated and assessed daily to fulfill the Financial Resources Rules.

The following table details the maturities analysis at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group is required to pay.

(i) *Non derivatives*

	On demand or less than 1 month HK'000	1 – 3 months HK'000	3 months – 1 year HK'000	1 – 5 years HK'000	Undated HK'000	Total HK'000
At 31 December 2018						
Borrowings	779,616	31,128	141,015	5,258,340	–	6,210,099
Subordinated loans from the ultimate holding company	2,500	4,759	22,180	117,757	1,000,000	1,147,196
Obligation under repurchase agreements	–	5,189	193,936	478,146	–	677,271
Other payables	17,410	–	–	–	–	17,410
Accounts payable	496,605	–	–	–	–	496,605
Amount due to the ultimate holding company	3,745	–	–	–	–	3,745
Amount due to a fellow subsidiary	83	–	–	–	–	83
Financial liabilities at fair value through profit or loss	30,960	–	–	–	–	30,960
	1,330,919	41,076	357,131	5,854,243	1,000,000	8,583,369

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.1 Financial risk factors (continued)

(c) *Liquidity risk (continued)*

(i) Non derivatives (continued)

	On demand or less than 1 month HK'000	1 – 3 months HK'000	3 months – 1 year HK'000	1 – 5 years HK'000	Undated HK'000	Total HK'000
At 31 December 2017						
Borrowings	8,767,308	306,704	1,014,901	–	–	10,088,913
Subordinated loans from the ultimate holding company	1,606	3,057	1,010,621	–	–	1,015,284
Other payables	13,401	–	–	–	–	13,401
Accounts payable	390,668	–	–	–	–	390,668
Amount due to the ultimate holding company	6,080	–	–	–	–	6,080
Financial liabilities at fair value through profit or loss	18,858	–	–	–	–	18,858
	9,197,921	309,761	2,025,522	–	–	11,533,204

(ii) Derivatives settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis include commodity futures and currency futures contract.

	On demand or less than 1 month HK'000	1 – 3 months HK'000	3 months – 1 year HK'000	1 – 5 years HK'000	Undated HK'000	Total HK'000
At 31 December 2018						
Derivative financial instruments held for trading commodity futures						
Outflow	**–**	**–**	**(86,761)**	**–**	**–**	**(86,761)**
Inflow	**–**	**–**	**87,083**	**–**	**–**	**87,083**
At 31 December 2017						
Derivative financial instruments held for trading commodity futures						
Outflow	–	–	(27,312)	–	–	(27,312)
Inflow	–	–	27,284	–	–	27,284

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.2 Capital risk management

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated statement of financial position, are:

(i) to comply with the requirements of the Hong Kong Securities and Futures Ordinance ("HKSFO") for the Company's licensed subsidiaries in carrying various types of regulated activities;

(ii) to support the Group's stability and growth;

(iii) to optimise risk adjusted return to the shareholders; and

(iv) to maintain a strong capital base to support the development of its business.

The subsidiaries of the Company licensed under the HKSFO are also required to maintain adequate financial resources to support their businesses. The Securities and Futures (Financial Resources) Rules require a licensed corporation to maintain liquid capital which is not less than its required liquid capital. During the years, the Company's licensed subsidiaries have maintained adequate liquid capital to meet the requirement. During the years ended 31 December 2018 and 2017, the Company's licensed subsidiaries were regulated by the Hong Kong Securities and Futures Commission ("SFC") and they complied with the statutory capital requirement.

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of share capital and reserves. The Group's overall strategy remains unchanged throughout the years.

The Group has Capital Allocation policies. Directors, Finance and Accounting Department and Risk Management Department would discuss at the beginning of each year to set absolute and relative exposure limits of the capital to different classes of assets, after analysing the capital needs, potential returns and business risks of different segments of business. Throughout the year, the usage and allocation of capital would be closely scrutinised to make sure it would not be deviated from its plan. The purpose of these policies is to maximise the shareholders' return within a controllable risk level.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.2 Capital risk management (continued)

	2018 HK$'000	2017 HK$'000
Total borrowings (Note 35)	**7,423,912**	11,068,242
Total equity	**6,274,208**	6,360,115
Gearing ratio	**118.32%**	174.03%

40.3 Fair value estimation

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.

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 entity 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 fair value of financial instruments with quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as Level 1. The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable. If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as Level 2. The second hierarchy of financial instruments held by the Group includes equity securities, and its fair value is estimated by adopting option pricing methodologies. The main parameters used include the relevant yield curve, exchange rate and level of volatilities etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.3 Fair value estimation (continued)

Level 3 financial instruments are valued using models which utilise observable Level 1 and / or Level 2 inputs, as well as unobservable Level 3 inputs.

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

	2018 HK$'000	2017 HK$'000	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	**57,382**	59,537	Allocated net asset value	Net asset value	N/A	(iv)
Unlisted equity	**9,182**	–	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	**58,737**	194,000	Discount cash flow	Discount rate	6.5%-8.4%	(ii)
Debt investments	–	358,372	Recent transaction price	(i)	N/A	(v)
Preference shares	–	405,627	Recent transaction price	(i)	N/A	(v)
Total	**125,301**	1,217,350				

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.3 Fair value estimation (continued)

	31/12/2018 HK$'000	31/12/2017 HK$'000	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss						
Club debenture	**1,991**	–	Recent transaction price	Liquidity discount rate	25%	(ii)
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	**78,200**	–	Recent transaction price	(i)	N/A	(v)
Unlisted fund	**643,195**	–	Market comparable approach	Sales multiples	1.0x-7.6x	(iii)
				Discount rate for lack of marketability	17.5%-20.5%	(ii)
Unlisted fund	**1,095,323**	1,663,185	Allocated net asset value/ Recent transaction price	Net asset value/(i)	N/A	(iv)/(v)
Unlisted fund	**147,798**	–	Recent transaction price	(i)	N/A	(v)
Unlisted fund	**39,538**	–	Exit price	(i)	N/A	(v)
Preference shares	**1,037,617**	346,331	Recent transaction price	(i)	N/A	(v)
Structured financial product	**–**	86,328	Guaranteed principal plus expected return	Expected rate	N/A	(vi)
Equity-linked loan	**440,266**	–	Discounted cash flow	Discount rate	14.5%	(ii)
			Monte Carlo Simulation	(i)/Underlying fund terms	N/A/ 3 years	(v)/(vii)
Total	**3,483,928**	2,106,150				
Financial liabilities at fair value through profit or loss						
Structured note payable	**19,550**	–	Recent transaction price	(i)	N/A	(v)

40. FINANCIAL RISK MANAGEMENT (continued)

40.3 Fair value estimation (continued)

(i) The Directors of the Company consider that the financial position of these investments has no significant change between its recent transaction date/exit date and the reporting date, and hence no adjustment to the recent transaction price/exit 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/exit price, the higher the fair value.

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

(vii) The longer the term of the underlying fund, the higher the fair value.

The following table presents the changes in Level 3 instruments:

	2018 HK$'000	2017 HK$'000
Financial assets at fair value through other comprehensive income/Available-for-sale investments		
Beginning of the year	**1,217,350**	172,811
Addition during the year	**58,774**	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 year	**(518,272)**	(3,529)
Net gain recognised in profit or loss	**(328)**	661
Net (loss)/gain recognised in other comprehensive income	**(3,279)**	37,557
End of the year	**125,301**	1,217,350

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.3 Fair value estimation (continued)

	2018 HK$'000	2017 HK$'000
Financial assets at fair value through profit or loss		
Beginning of the year	**2,106,150**	105,672
Addition during the year	**2,209,546**	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 year	**(1,876,170)**	(97,030)
Net gain recognised in profit or loss	**415,458**	100,969
End of the year	**3,483,928**	2,106,150

	2018 HK$'000	2017 HK$'000
Financial liabilities at fair value through profit or loss		
Beginning of the year	**–**	–
Addition during the year	**19,550**	–
End of the year	**19,550**	–

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.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.3 Fair value estimation (continued)

Sensitivity analysis

The following table details the Group's sensitivity to changes of unobservable inputs. The changes on one or more of the unobservable inputs would materially change the fair value of financial instruments in Level 3. The number shown below indicates an increase in profit after taxation/total assets and other comprehensive income/equity where unobservable inputs have a reasonably possible shift as shown.

Change in net asset value

	2018		2017	
	+10%	-10%	+10%	-10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/total assets	**91,460**	**(91,460)**	–	–
Impact on other comprehensive income/equity	**5,738**	**(5,738)**	9,907	(9,907)

Change in adjustment to the recent transaction price/exit price

	2018		2017	
	+10%	-10%	+10%	-10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/total assets	**108,813**	**(108,813)**	–	–
Impact on other comprehensive income/equity	**–**	**–**	293,169	(293,169)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.3 Fair value estimation (continued)

Sensitivity analysis (continued)

Change in expected rate

	2018		2017	
	+10%	-10%	+10%	-10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on other comprehensive income/equity	–	–	8,633	(8,633)

Change in discount rate

	2018		2017	
	+10%	-10%	+10%	-10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on other comprehensive income/equity	**(5,874)**	**5,874**	(20,431)	20,431

Change in multiples

	2018		2017	
	+10%	-10%	+10%	-10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/total assets	**53,707**	**(53,707)**	–	–
Impact on other comprehensive income/equity	**918**	**(918)**	–	–

40. FINANCIAL RISK MANAGEMENT (continued)

40.4 Offsetting financial assets and financial liabilities

(a) Financial assets

The Group has net off the financial asset and financial liabilities with counterparties and clearing house for unsettled trades.

As at 31 December 2018	Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000
Accounts receivable from			
– Clients	**598,430**	**(211,513)**	**386,917**
– Brokers	**241,754**	**(115,170)**	**126,584**
– Clearing house	**541,235**	**(428,660)**	**112,575**
– Corporate finance services	**1,796**	**–**	**1,796**
– Underwriting business	**13,318**	**–**	**13,318**
Margin loans to customers	**4,104,926**	**(186,555)**	**3,918,371**
Total	**5,501,459**	**(941,898)**	**4,559,561**

As at 31 December 2017	Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000
Accounts receivable from			
– Clients	487,049	(321,218)	165,831
– Brokers	96,468	(8,479)	87,989
– Clearing house	1,081,994	(819,819)	262,175
– Corporate finance services	4,203	–	4,203
– Underwriting business	40,792	–	40,792
Margin loans to customers	6,809,861	(393,071)	6,416,790
Total	8,520,367	(1,542,587)	6,977,780

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

40. FINANCIAL RISK MANAGEMENT (continued)

40.4 Offsetting financial assets and financial liabilities (continued)

(b) *Financial liabilities*

As at 31 December 2018	Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000
Accounts payable to			
– Clients	**721,029**	**(398,068)**	**322,961**
– Clearing house	**473,425**	**(428,660)**	**44,765**
– Brokers	**244,049**	**(115,170)**	**128,879**
Total	**1,438,503**	**(941,898)**	**496,605**

As at 31 December 2017	Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000
Accounts payable to			
– Clients	1,102,369	(714,289)	388,080
– Clearing house	822,407	(819,819)	2,588
– Brokers	8,479	(8,479)	–
Total	1,933,255	(1,542,587)	390,668

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

41. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	31/12/2018 HK$'000	31/12/2017 HK$'000
Non-current Assets		
Property and equipment	**29,163**	16,622
Interest in subsidiaries	**1,491,616**	1,441,615
Interest in an associate	**195,375**	–
Subordinated loans to subsidiaries	**800,000**	200,000
Available-for-sale investments	**–**	4,093,196
Financial assets at fair value through other comprehensive income	**2,072,507**	–
Loans and advances	**156,136**	384,572
Total non-current assets	**4,744,797**	6,136,005
Current Assets		
Subordinated loans to subsidiaries	**634,010**	200,000
Loan to a subsidiary	**–**	132,634
Loans and advances	**573,077**	1,093,548
Accounts receivable	**19**	19
Other receivables and prepayments	**154,371**	145,742
Amount due from the ultimate holding company	**3,405**	2,530
Amounts due from subsidiaries	**1,142,672**	130,895
Financial assets at fair value through profit or loss	**3,523,775**	2,046,459
Derivative financial assets	**5,306**	831
Cash and bank balances	**22,311**	670,727
Total current assets	**6,058,946**	4,423,385
Total assets	**10,803,743**	10,559,390
Equity and liabilities		
Equity attributable to shareholders of the Company		
Share capital	**3,909,555**	3,909,555
Retained earnings	**588,901**	470,010
Revaluation reserve	**(165,720)**	9,467
Total equity	**4,332,736**	4,389,032

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

41. STATEMENTS OF FINANCIAL POSITION OF THE COMPANY (continued)

	31/12/2018 HK$'000	31/12/2017 HK$'000
Non-current liabilities		
Borrowings	**4,988,200**	–
Total non-current liabilities	**4,988,200**	–
Current liabilities		
Borrowings	**285,430**	5,833,747
Provision for staff costs	**77,903**	17,499
Other payables and accrued expenses	**69,136**	17,223
Contract liability	**1,665**	–
Amounts due to subsidiaries	**1,043,384**	301,086
Derivative financial liabilities	**5,289**	803
Total current liabilities	**1,482,807**	6,170,358
Total liabilities	**6,471,007**	6,170,358
Total equity and liabilities	**10,803,743**	10,559,390
Net current assets/(liabilities)	**4,576,139**	(1,746,973)
Total assets less current liabilities	**9,320,936**	4,389,032

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 26 March 2019 and signed on its behalf by:

Tan Yueheng,
Chairman and Executive Director

Cheng Chuange,
Deputy Chief Executive Officer & Executive Director

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

42. RESERVES OF THE COMPANY

	Retained earnings HK$'000	Revaluation reserve HK$'000
At 1 January 2017	226,797	(16,321)
Profit for the year	243,213	–
Other comprehensive income for the year	–	25,788
Total comprehensive income for the year	243,213	25,788
At 31 December 2017	470,010	9,467
At 1 January 2018	**470,010**	**9,467**
Impact on initial application of HKFRS 9	**5,130**	**(11,200)**
Adjusted balance at 1 January 2018	**475,140**	**(1,733)**
Profit for the year	**338,527**	**–**
Other comprehensive income for the year	**(6,015)**	**(163,987)**
Total comprehensive income for the year	**332,512**	**(163,987)**
Final dividend for 2017	**(218,751)**	**–**
At 31 December 2018	**588,901**	**(165,720)**

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2018

43. CASH HELD ON BEHALF OF BROKERAGE CLIENTS AND ASSET MANAGEMENT CLIENTS

The Group maintains segregated client accounts with licensed banks to hold client monies arising from normal business transactions in connection with the Group's brokerage and asset management business.

The Group

(a) *Segregated client accounts with HKFE Clearing Corporation Limited ("HKCC")*

	2018 HK$'000	2017 HK$'000
Segregated client accounts with HKCC	**42,427**	72,886

(b) *Segregated client accounts with SEHK Options Clearing House Limited ("SEOCH") in conjunction with its futures and options business*

	2018 HK$'000	2017 HK$'000
Segregated client accounts with SEOCH	**68,757**	57,013

(c) *Segregated client accounts with authorised institutions ("AIs") as a result of its normal business transactions, which are not otherwise dealt within the financial information*

	2018 HK$'000	2017 HK$'000
Segregated client accounts with AIs	**3,789,816**	3,927,044

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2018

44. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities

	HK$'000
As at 1 January 2018	10,068,242
Net repayment of bank borrowings	(3,705,721)
Decrease in collateralised cash	(623,000)
Increase in obligation under repurchase agreements	672,082
Foreign exchange adjustments	12,309
As at 31 December 2018	6,423,912

45. SUBSEQUENT EVENT

Profit distribution for 2018

On 26 March 2019, the Board of Directors proposed the 2018 final dividends of HK$0.08 per share, amounting to HK$218,751 thousand. The proposed profit distribution plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Glossary

"AUM"	the amount of assets under management
"Articles of Association"	the articles of association of the Company, which became effective on the Listing Date
"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 (Hong Kong Branch)"	the Hong Kong Branch of BOCOM
"BOCOM Group"	BOCOM and its subsidiaries (excluding the Group)
"BOCOM International Asset Management"	BOCOM International Asset Management Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of the Company
"BOCOM International Futures"	BOCOM International Futures Limited, a company incorporated in Hong Kong with limited liability on 15 January 2016, a subsidiary of BOCOM International Securities and an indirect subsidiary of the Company
"BOCOM International Securities"	BOCOM International Securities Limited, a company incorporated in Hong Kong with limited liability on 18 May 2007 and a subsidiary 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
"Federal Reserve"	Federal Reserve System of the US
"GDP"	gross domestic product
"Group" or "we" or "us"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"HKD" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"IPO"	initial public offering
"Listing"	listing of the shares on the main Board of the Stock Exchange
"Listing Date"	19 May 2017, the date on which the shares were first listed on the Stock Exchange and from which dealings in the shares on the Stock Exchange commenced
"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
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	Securities and Futures 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
"Shanghai Stock Exchange"	the Shanghai Stock Exchange (上海證券交易所)
"Share(s)"	ordinary share(s) in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange" or "SEHK" or "HKEX"	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
"Year"	the year ended 31 December 2018
"YoY"	year-on-year

交銀國際
BOCOM International

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