



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

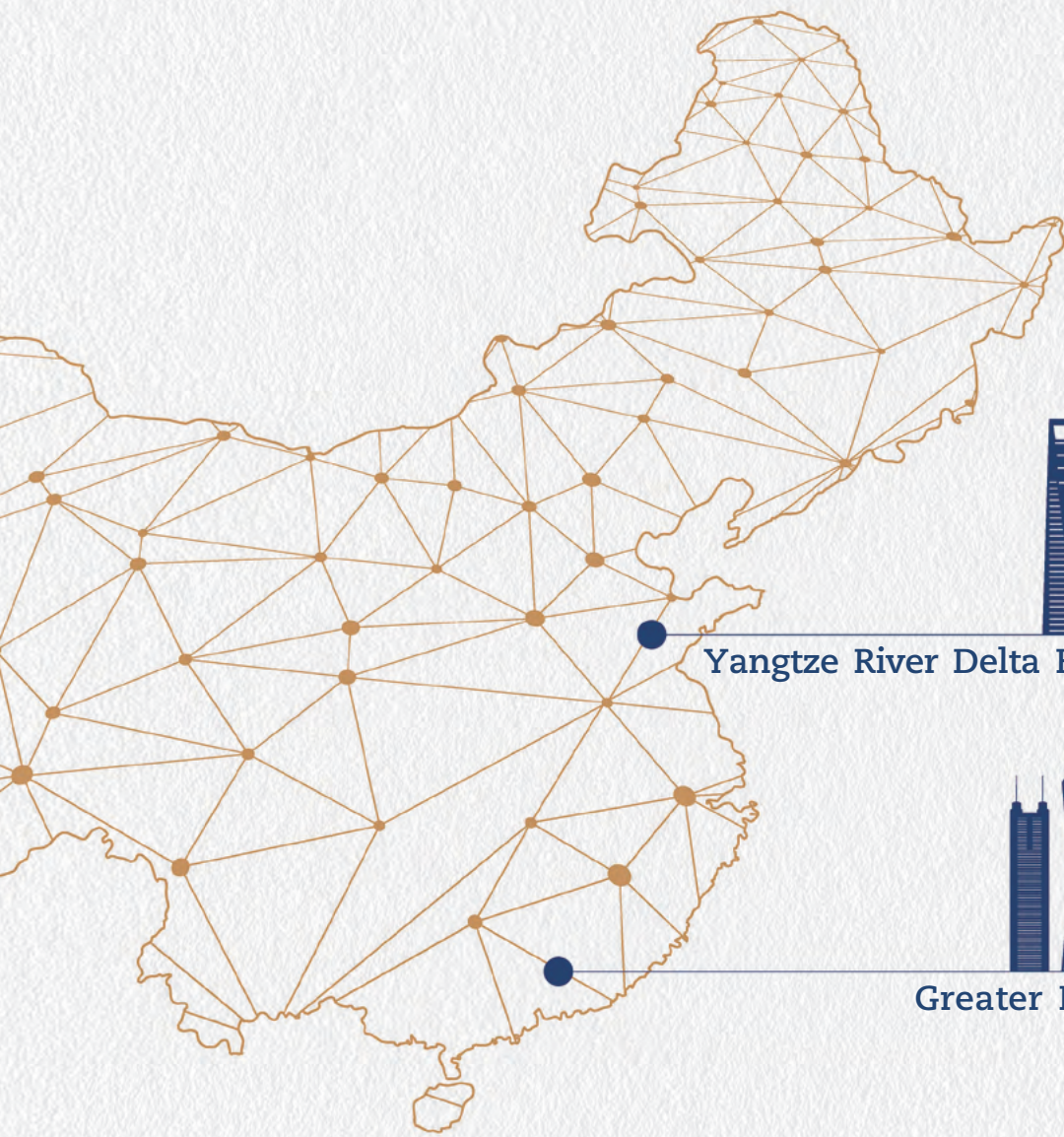


YANGTZE RIVER DELTA  
ECONOMIC ZONE

HONG KONG

GREATER  
BAY AREA

ANNUAL REPORT 2019



Yangtze River Delta Economic Zone



Greater Bay Area



## INTRODUCTION TO BOCOM INTERNATIONAL

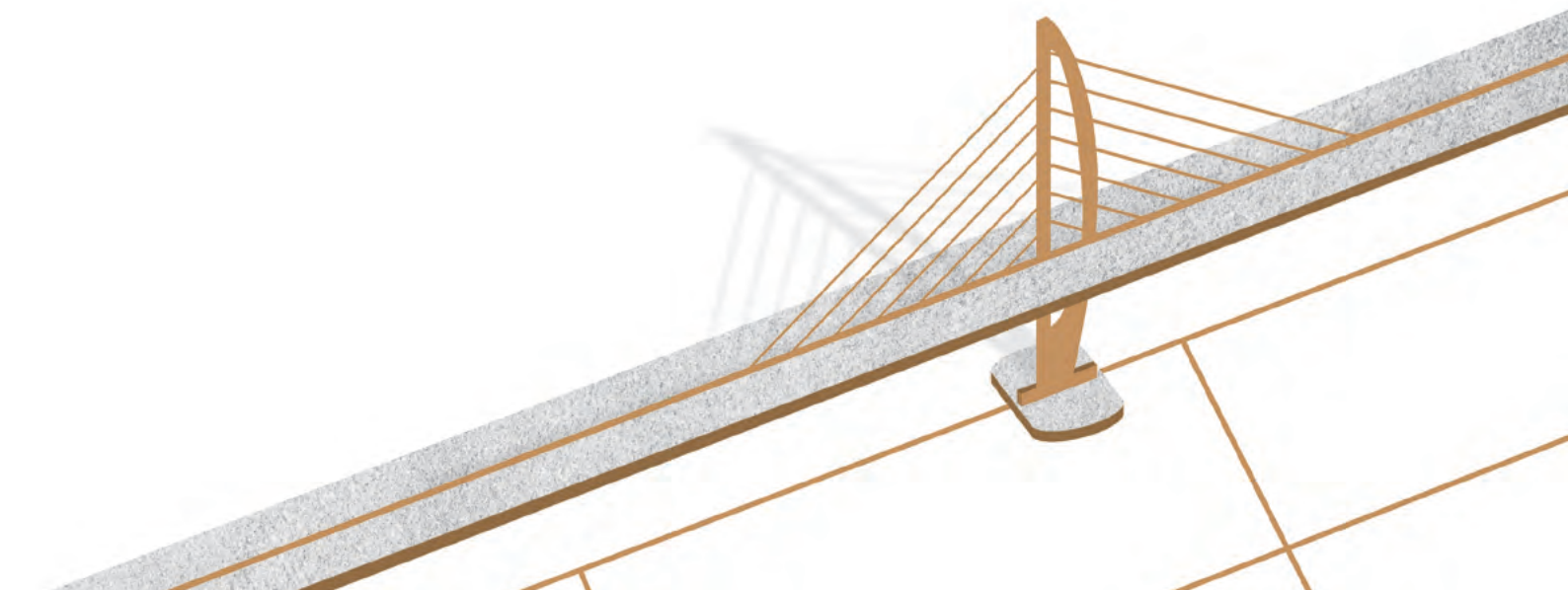
BOCOM International Holdings Company Limited (“BOCOM International”, stock code: 3329.HK) is the only integrated platform for securities and securities-related financial services of BOCOM (a state-owned joint stock commercial bank) in Hong Kong. As one of the earliest licensed securities firms with a PRC background in Hong Kong, BOCOM International has weathered many economic and industry cycles as well as regulatory reforms since its establishment in 1998, and has grown to become 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 in Hong Kong. BOCOM International successfully landed on the main board of the HKEX on 19 May 2017.

BOCOM International will seize cross-border business opportunities from the stock connect programs and take full advantage of our background as a securities firm within a banking group to provide one-stop financial services for global customers. With building a comprehensive wealth management and financial services institution with global influence and market competitiveness in the region being its long-term strategic development goal, BOCOM International is committed to creating greater value for its customers and shareholders.

## POWERFUL SUPPORT FROM CONTROLLING SHAREHOLDER-BOCOM

BOCOM, our controlling shareholder, was founded in 1908 and is the first nationwide state-owned joint stock commercial bank in the PRC. The H shares and A shares of BOCOM have been listed on the Stock Exchange (stock code: 3328) and the Shanghai Stock Exchange (stock code: 601328) since 2005 and 2007, respectively.

BOCOM is one of the large-scale financial institutions in the PRC’s banking industry and its primary businesses include corporate banking, personal banking and inter-bank and financial market businesses. In addition, the BOCOM Group involved in fund, trust, financial leasing, insurance, overseas securities, debt-to-equity conversion and asset management through its subsidiaries.







Reform-driven  
development



Technology-led  
growth



Principle of  
customer first



Focus on  
value creation



交銀國際  
BOCOM International

To develop into a  
comprehensive wealth  
management and financial  
services institution with  
global influence and market  
competitiveness in the region

GO





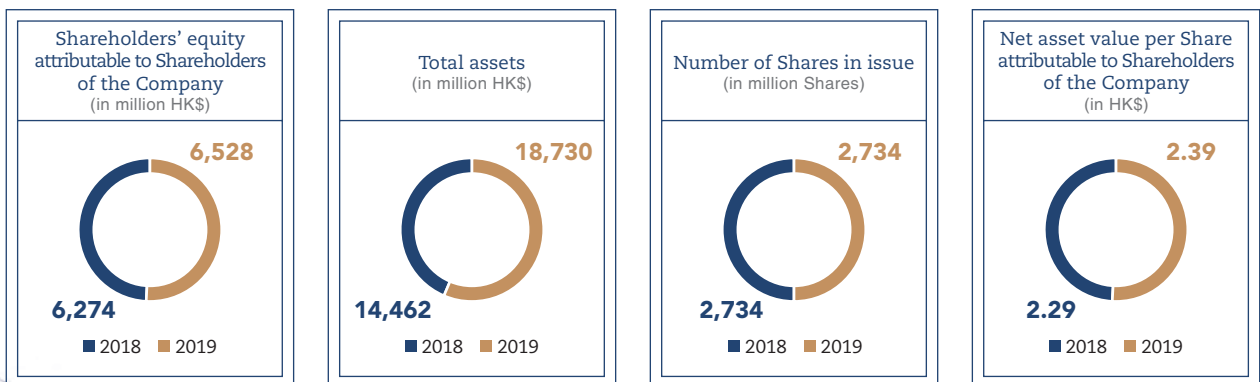
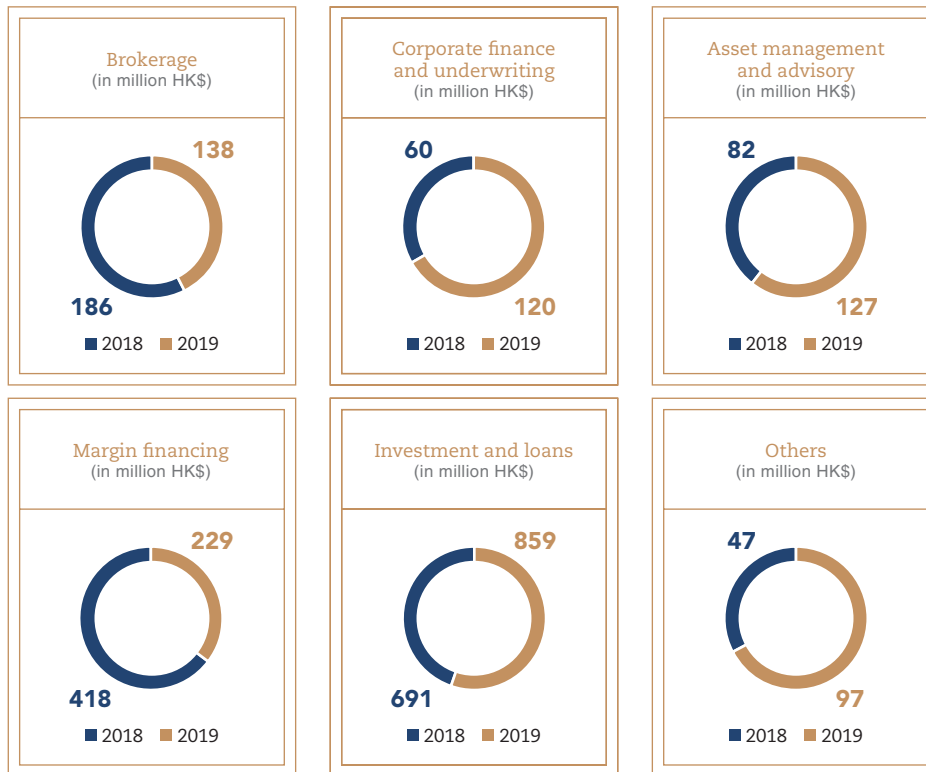
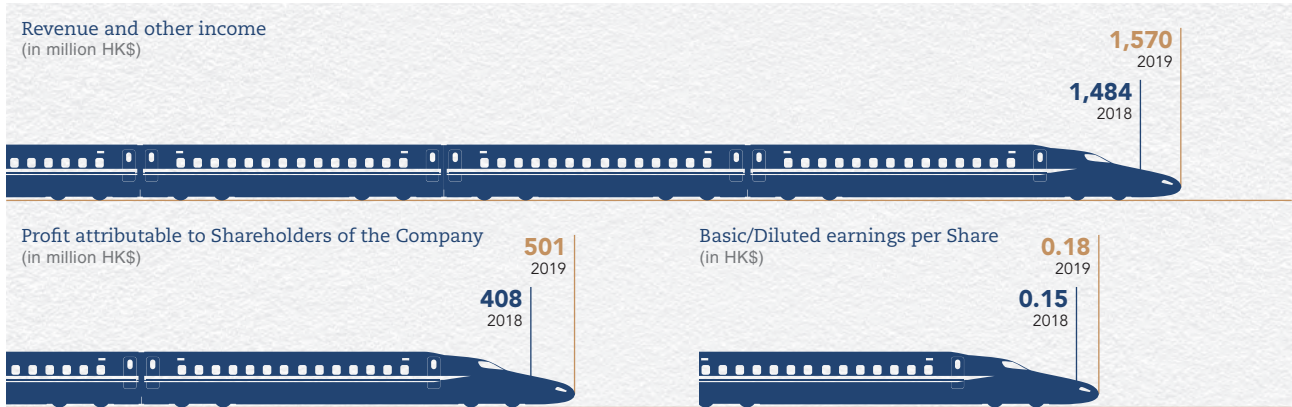
# Content

|     |  |
|-----|--|
| 2   | Financial Highlights                           |
| 3   | Financial Summary                              |
| 4   | Chairman's Statement                           |
| 8   | Management Discussion and Analysis             |
| 18  | Corporate Information                          |
| 19  | Biographies of Directors and Senior Management |
| 24  | Report of the Directors                        |
| 41  | Corporate Governance Report                    |
| 54  | Corporate Social Responsibility Report         |
| 86  | Awards   |
| 87  | Independent Auditor's Report                   |
| 94  | Consolidated Income Statement                  |
| 95  | Consolidated Statement of Comprehensive Income |
| 96  | Consolidated Statement of Financial Position   |
| 98  | Consolidated Statement of Changes in Equity    |
| 99  | Consolidated Statement of Cash Flows           |
| 101 | Notes to the Consolidated Financial Statements |
| 224 | Glossary                                       |





# Financial Highlights



# Financial Summary

|  | For the year ended 31 December |                  |                  |                  |                  |
|--|--------------------------------|------------------|------------------|------------------|------------------|
|  | 2015<br>HK\$'000               | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000 | 2019<br>HK\$'000 |
| <b>RESULTS</b>                                     |                                |                  |                  |                  |                  |
| Revenue and other income                           | 1,140,604                      | 1,052,973        | 1,220,533        | 1,484,259        | <b>1,570,242</b> |
| Profit attributable to Shareholders of the Company | 350,238                        | 350,609          | 403,907          | 407,605          | <b>500,567</b>   |
| Retained earnings carried forward                  | 1,644,798                      | 1,995,407        | 2,399,314        | 2,520,038        | <b>2,778,837</b> |

|                               | As at 31 December |                  |                  |                  |                   |
|-------------------------------|-------------------|------------------|------------------|------------------|-------------------|
|                               | 2015<br>HK\$'000  | 2016<br>HK\$'000 | 2017<br>HK\$'000 | 2018<br>HK\$'000 | 2019<br>HK\$'000  |
| <b>ASSETS AND LIABILITIES</b> |                   |                  |                  |                  |                   |
| Current assets                | 7,117,829         | 6,890,148        | 12,886,591       | 11,072,629       | <b>13,249,561</b> |
| Total assets                  | 8,796,350         | 10,179,283       | 17,968,322       | 14,461,839       | <b>18,730,229</b> |
| Current liabilities           | 3,709,829         | 4,896,640        | 11,608,077       | 1,721,285        | <b>5,864,255</b>  |
| Total liabilities             | 5,151,410         | 6,193,165        | 11,608,207       | 8,187,631        | <b>12,102,419</b> |

The results of the Group and its assets and liabilities for the two financial years ended 31 December 2015 and 2016 were extracted from the Prospectus.

# Chairman's Statement



**Dear Shareholders,**

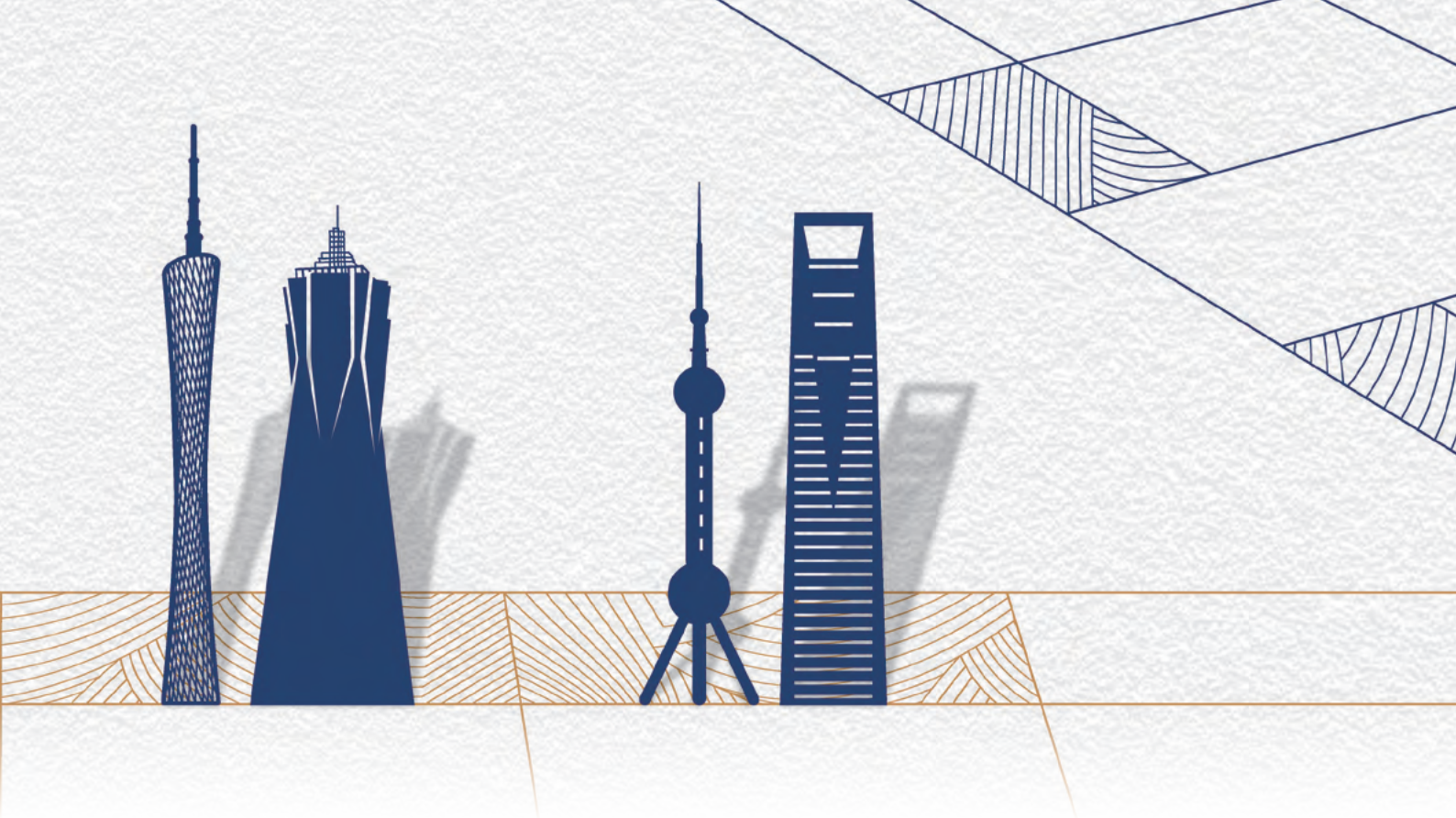
In 2019, under the leadership of the Board and with the combined efforts of all employees, the Group upheld the long-term strategic development goal to develop itself into a comprehensive wealth management and financial services institution with global influence and market competitiveness in the region. Facing a complex and challenging operating environment, the Group has taken a series of effective response measures, successfully achieving comprehensive development with “steady progress, sound growth and quality improvement”.

## MACRO ENVIRONMENT AND MARKET REVIEW

In 2019, the world GDP growth slowed to its weakest pace since the 2008 financial crisis due to a synchronised global economic slowdown. The downturn in global manufacturing was spreading to the services sector. The yield curve in advanced economies had been inverted, raising fears that a global recession was coming. Against a backdrop of weaker global growth and changing monetary policies among major economies, interest rate cuts were implemented around the world. The Federal Reserve declared a “mid-cycle adjustment” and cut interest rates three times in 2019. The European Central Bank injected fresh stimulus by cutting interest rates further below zero and re-starting quantitative easing in 2019. The Bank of Japan modified its forward guidance and the regime of easing policy was poised to stay for a longer period of time. 2019 also saw rate cuts from most emerging and developed markets, and global central banks were in full easing mode. Abundant liquidity drove up risk appetite and global stock markets posted their best year.

Facing internal and external headwinds and an uncertain environment, China implemented countercyclical adjustments and the economy has been generally stable. China fostered a better business environment and offered more support for enterprises through trillions of dollars in planned tax cuts and kept an easing bias by cutting interest rates three times throughout 2019. Although the growth rate of investment was declining, the investment structure was optimised with high-tech industries and strategic emerging industries recording rapid growth. The employment situation in China was stable and it met its 2019 job creation target ahead of schedule. Capital market reforms were advanced, the Sci-Tech Innovation Board was successfully launched, and the registration-based IPO system was implemented





step by step. Shanghai-London Stock Connect and China-Japan ETF Connectivity went live, which was another meaningful step for the opening-up of the China market. The removal of quotas on QFII/RQFII and increasing acceptance of A-shares in global indices will ratchet up the potential for foreign capital inflows.

Due to slowing global economy and the severe impacts of local social incidents, Hong Kong economy showed serious deterioration and stepped into technical recession. Trade tensions weighed on external demand, and Hong Kong's total exports of services fell sharply. The social incidents have jeopardised domestic demand which consumer spending, investment, real estate and other related industries suffered together with collateral damage to the labour market consequently. Hong Kong's stock market was volatile. The Hang Seng Index ended at 28,189.8 points, representing a yoy increase of 9%, and underperformed relative to the world's major developed markets. Benefitting from Alibaba's mega financing amount from its secondary listing, Hong Kong remained the world's largest IPO market. However, the number of new offerings has fallen in 2019, with lower valuations and first-day returns, dragging down the overall performance of the market.

## BUSINESS REVIEW AND ANALYSIS

Over the past year, amid a challenging operating environment, the Group leveraged on its various advantages within its strategic framework to maintain meaningful growth in the major operation indicators, achieved further optimisation in its business structure and income portfolio, and increased the proportions of new economy in the investment and financing segment, new energy in the traditional businesses and high value-added business in the licensed businesses. During the Year, the Group stepped up its efforts in the customer-oriented business expansion, aiming to serve customers with better integrated services, further improving its capability in serving the real economy. Focusing on the supply-side structural reform of the finance sector, the Group cultivated several profitable and competitive product lines through developing and diversifying its product portfolio. With the application of modern technologies, the Group launched a number of innovative services, so as to optimise customer experience. The Group further deepened its interaction and cooperation with BOCOM Group, in a joint effort to provide customers with innovative and diversified products and services such as the science and technology innovation fund.

## Chairman's Statement

While pursuing rapid business development, the Group was also dedicated to enhancing corporate governance and operation management amid the challenges arising from a volatile market environment, increasingly vigorous regulatory policies and increasing business diversity, so as to maintain stable business operations and get through the hardships brought by such market and operating environment. During the Year, we further strengthened our risk management, legal compliance and internal audit function. The Group successfully achieved balanced and coordinated development with respect to scale, quality and efficiency with asset quality at a stable level, making encouraging improvements which laid a solid foundation for rapid mid- and long-term development in the future.

In 2019, BOCOM International was assigned a long-term rating of "A" and a short-term issuer rating of "F1+" by Fitch Ratings with a stable outlook, and was assigned a long-term rating of "A3" and a short-term issuer rating of "Prime-2" by Moody's Investors Service with also a stable outlook. The Group obtained various awards, including the "Best China Broker" presented by Bloomberg and the Chinese Asset Management Association of Hong Kong, the "No. 2 Best Small Caps Award" presented by FinanceAsia, the "Best Financial Stock Company" presented by Zhitong Finance and RoyalFlush Information, as well as the "HK Listed Company Most Valuable Brand Award" presented by Gelonghui, reflecting the recognition and confidence the capital market has in the business development outlook of the Group.

With the combined efforts of all colleagues, the Group has achieved steady growth in its operation results. In 2019, the revenue and other income of the Group amounted to HK\$1,570.2 million, representing an increase of 5.8% YoY. The profit amounted to HK\$500.6 million, representing an increase of 21.8% YoY. The Board will recommend the payment of a final dividend of 2019 of HK\$0.09 per Share at the forthcoming general meeting in 2020. I also would like to take this opportunity to express our gratitude towards all Directors for their outstanding contributions, to all staff for their commitment and dedication, to our customers for their trust and to all Shareholders for their great support.

## OUTLOOK AND STRATEGY

2020 is a year which is full of severe challenges for the global economy. The "black swan" of COVID-19 at the beginning of the Year has broken out on a large scale. More and more countries are emulating the PRC's approach to contain the virus' contagious spread at the high cost of suspending economic activity. Production shutdown and supply chain disruption are deepening economic slowdown. Rising fears of recession spark global sell-offs of risk assets and flight to safety; risk assets have collapsed, and the safe-haven assets trade is extremely crowded. As the crisis intensified, central banks have taken coordinated actions. Developed countries ramped up their asset purchases and the Federal Reserve slashed interest rates to zero. However, we must be wary that, in the face of any possible recession, advanced economies trapped by unconventional monetary policies and heavy debts have little room for stimulus. The global economy faces great uncertainty under the haze of the epidemic.



2020 stands at a crucial juncture for China that entails a shift in growth model from old to new drivers and the "13th Five-Year Plan" will come to an end. China is embarking upon a new era of high-quality development from high-speed growth, but short-term periodic fluctuations are inevitable. China is in the midst of a temporary economic shutdown due to the outbreak of COVID-19. Service industries may suffer huge losses and industrial output may be depressed as well, but the outbreak could only moderate rather than reverse such cyclical trajectories. With a policy package to stabilise growth, China has increased fiscal and monetary stimulus to mitigate the adverse impact of the epidemic on economic growth and corporate earnings. However, the virus outbreak softens demand from the rest of the world, and the global recession might trigger further plunges in the markets. China's recovery will likely face more challenges. As domestic consumption and exports will take time to recover, investment will be the main growth stabiliser; new infrastructure is expected to enjoy new momentum and usher in major development opportunities.

Looking forward, amid the external uncertainties and challenging operating environment, we are confident that the PRC economy remains on the trend of steady progress in the long run. In addition, the economy has entered a new cycle featuring an accelerated shift in development mode and growth drivers, presenting a series of new opportunities brought about by the implementation of regional strategies such as Yangtze River Delta and Greater Bay Area as well as technology innovation and development. While continuing to adhere to the strategy of "making steady progress", the Group will adopt a more prudent risk management framework in response to the possible huge impact from external markets in this year of extraordinary challenges. With the principle of customer first, the Group will focus on value creation and promote high-quality and large-scale development by strengthening technology empowerment and facilitating synergetic development of the licensed business and asset-based business. Meanwhile, the Group will make further improvements to its internal control system and increase efforts in enforcing self-inspiring and prudent internal controls, so as to balance the risks and returns, achieve balanced development with respect to scale, quality and efficiency, and develop itself into a comprehensive wealth management and financial services institution with global influence and market competitiveness in the region, striving to create greater value for its clients and Shareholders.

**TAN Yueheng**  
*Chairman*

Hong Kong, 25 March 2020

# 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\$1,570.2 million, representing an increase of 5.8% when compared with HK\$1,484.3 million in 2018. The Group's profit was HK\$500.6 million, representing an increase of 21.8% when compared with HK\$411.0 million in 2018.

### 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 a 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.



## Management Discussion and Analysis

Rapid developments in information technology, tightening regulations, increasing competition and new entrants squeezed the fees to a minimum and have led to the transformation of the brokerage business. Amid the revolutionary changes in the traditional brokerage business model, we had to explore new breakthroughs and directions to cope with the challenges.

In 2019, which was the second year of our 3-Year IT Application System and Infrastructure Strategic Plan, we reinforced IT implementation via the commitment of resources and achieved significant results. In the first half of 2019, we successfully launched two-factor authentication application to further enhance cyber security. In the second half of 2019, we rolled-out the “BOCOMI Services App” with the aim of providing customers with more convenient and comprehensive information and account management services. The deployment of an artificial intelligence system and continuous improvements to our online trading platform have enabled us to provide customers with around-the-clock service.

In addition to hardware improvement, we have also continued to strengthen the construction of our wealth management teams to provide comprehensive advisory services to meet the investment needs of high-net-worth clients for diversified product coverage, including but not limited to exchange-traded products. Assisted by the power of technology, we perseveringly strived to improve client experience across each stage of the value chain, including client account opening, customisation of investment advice, research report distribution, middle and back office processes and deal completion. We won the 2019 “Best China Broker” award at the Fifth Offshore China Funds Award, which was jointly sponsored by the Chinese Asset Management Association of Hong Kong and Bloomberg and won the “Best Financial Stock Company” award at the Golden Hong Kong Stocks Awards 2019, demonstrating the market’s recognition of our performance and value.

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

For the year ended 31 December 2019, our commission and fee income from the securities brokerage business was HK\$118.4 million, a decrease of HK\$47.2 million or 28.5% as compared with 2018.

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

|                      | Year ended 31 December |              |               |              |
|----------------------|------------------------|--------------|---------------|--------------|
|                      | 2019                   |              | 2018          |              |
|                      | HK\$' million          | %            | HK\$' million | %            |
| Hong Kong stocks     | 87.7                   | 74.1         | 132.0         | 79.7         |
| Non-Hong Kong stocks | 7.7                    | 6.5          | 10.2          | 6.2          |
| Bonds                | 8.1                    | 6.8          | 7.2           | 4.3          |
| Others               | 14.9                   | 12.6         | 16.2          | 9.8          |
|                      | <u>118.4</u>           | <u>100.0</u> | <u>165.6</u>  | <u>100.0</u> |

## Management Discussion and Analysis

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

In response to the increasing credit risk and regulatory changes in the margin financing business, we have adopted a systematic approach to deal with stock concentration and client concentration issues and achieved remarkable results, although short-term negative impact is expected from the margin financing business.

During the Year, the number of margin client accounts continued to grow. The monthly average loan balance decreased and interest income from margin loans for the year ended 31 December 2019 was HK\$228.6 million, a decrease of HK\$188.9 million or 45.2% as compared with 2018.

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

|   | 2019            | 2018     |
|---|-----------------|----------|
| Number of margin accounts                     | <b>8,254</b>    | 7,961    |
| Balance of gross margin loans (HK\$' million) | <b>2,774.9</b>  | 4,009.0  |
| Monthly average balance (HK\$' million)       | <b>3,421.9</b>  | 5,950.6  |
| Highest month end balance (HK\$' million)     | <b>3,814.3</b>  | 6,640.8  |
| Lowest month end balance (HK\$' million)      | <b>2,658.2</b>  | 4,009.0  |
| Margin value (HK\$' million) (Note 1)         | <b>2,789.8</b>  | 3,871.0  |
| Market value (HK\$' million) (Note 2)         | <b>11,563.5</b> | 17,349.0 |

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 our 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 services.

In 2019, there were a total of 183 new listings in Hong Kong (including the transfer of listings from GEM to Main Board). The number of new listings has decreased by 16.1% as compared with 2018. The aggregate amount of funds raised through IPOs was HK\$312.9 billion, an increase of 8.6% as compared with 2018.



As we believe that new economy companies will play an increasing dominant role in the fund-raising market, we have devoted more resources to building up execution teams specialising in the technology, media and telecommunications, healthcare and biotechnology industries in order to grasp the business opportunities of a new era. During the Year, we acted as a sponsor for 5 completed IPO projects in various industries, including one in the healthcare industry. Among all the completed IPO projects, we acted as the sole sponsor of 4 projects. Furthermore, we acted as a global coordinator and/or bookrunner for 20 completed IPO projects. In respect of debt capital markets, we completed 73 debt issuance projects, and successfully assisted our clients in raising approximately USD29.3 billion in aggregate.

For the year ended 31 December 2019, our commission and fee income from corporate finance and underwriting services was HK\$120.1 million, an increase of HK\$60.2 million or 100.6% as compared to HK\$59.9 million in 2018.

### Asset Management and Advisory

We offer a full range of asset management products including both public and private funds, and discretionary managed accounts, as well as investment advisory services. In addition to Hong Kong, we also provide asset management services in Mainland China via BOCOM International (Shanghai) in Shanghai and BOCOM International (Shenzhen) in Qianhai, Shenzhen.

Our core value is to provide comprehensive investment solutions and the best services to individual investors and institutional clients. In addition to traditional investments, we also offer alternative investments to investors. We have built up a cross-border asset management platform through our presence in Hong Kong, Shanghai and Shenzhen to grasp the distinct sources of investment growth in Mainland China. With a focus on investing in artificial intelligence, new materials, bio-pharmaceuticals and next-generation information technology, we also provide integrated financial services to investors, including but not limited to the sourcing of investments, project structuring, full value chain financing and tax arrangements. Under our Shenzhen asset management platform, we launched a private fund with a focus on cloud technology in early 2019. Before the official launch of the Science and Technology Innovation Board or the "STAR Market" by the Shanghai Stock Exchange, our wholly-owned subsidiary in Shanghai engaging in asset management and BOCOM Guo Xin Asset Management Company Limited formed a partnership enterprise named BOCOM Science and Technology Innovation Equity Investment Fund. As at 31 December 2019, the investments under this newly set up fund covered cloud computing, big data and bio-pharmaceutical industries, which are key industries of the STAR Market.

Diversified products are the foundation of our asset management business. As at 31 December 2019, the total amount of AUM was approximately HK\$27,437.4 million, representing an increase of approximately 10.6% from HK\$24,810.9 million as at 31 December 2018. For the year ended 31 December 2019, asset management and advisory fee income was approximately HK\$125.9 million which comprised of management fee income of HK\$59.3 million and advisory fee income of HK\$66.6 million.

## Management Discussion and Analysis

### Investment and Loans

Our investment and loans business comprises of investments in equity and debt securities as well as public and private funds, and the provision of structured finance and corporate loans. We aim to achieve a balance between investment returns and tolerable risks.

For equity investments, we focus on investing in companies which engage in innovative technology, biotechnology, healthcare industry and other new economy industries, and have formulated clear plans for such companies' public listings in Hong Kong, Mainland China or overseas. Some of these target investments are unicorn startup companies, with broad market recognition and strong growth potential.

Based on our investment objectives, we strived to achieve an optimal allocation in our fixed-income investments and structured financing business. Supported by high-quality underlying assets and tailor-made structures, we mitigated market risks and strengthened collateral controls.

For the year ended 31 December 2019, interest income from loans and advances was HK\$92.7 million, representing an increase of approximately 16.5% as compared to HK\$79.6 million in 2018. Proprietary trading income was HK\$690.2 million which represented an increase of approximately 17.5% from HK\$587.5 million in 2018.

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

|                         | 2019           |             | 2018          |      |
|-------------------------|----------------|-------------|---------------|------|
|                         | HK\$' million  | %           | HK\$' million | %    |
| Fixed income securities | <b>8,591.1</b> | <b>75.9</b> | 3,699.5       | 57.0 |
| Bonds                   | <b>6,545.2</b> | <b>57.8</b> | 1,750.7       | 27.0 |
| Preference shares       | <b>1,992.5</b> | <b>17.6</b> | 1,891.4       | 29.1 |
| REIT(s)                 | <b>53.4</b>    | <b>0.5</b>  | 57.4          | 0.9  |
| Equity investments      | <b>179.6</b>   | <b>1.6</b>  | 159.2         | 2.4  |
| Equity-linked loan      | <b>443.1</b>   | <b>3.9</b>  | 440.3         | 6.8  |
| Funds                   | <b>2,106.0</b> | <b>18.6</b> | 2,192.3       | 33.8 |

### Research

Our research team has a deep and solid understanding of the global economic conditions, financial markets and major industries, and provides comprehensive analysis and forecasting in respect of sector- and company-specific fundamentals. The team has been highly rated by institutional investors in Hong Kong, Mainland China and overseas markets. In 2019, we won the Professional Outstanding Research Team Service Award at the Professional Financial Institutions Service Awards. Mr. Hao Hong, the head of our research department and chief strategist, was awarded "chief economist of the year 2019" by the China Business Network. As at 31 December 2019, our research team comprised of around 40 strategy and industry analysts and professional staff in Hong Kong, Beijing and Shanghai, with most having master's degrees and professional qualifications such as CFA and CPA and with 10 years or above experience in finance and/or relevant industries, covering around 140 stocks across new-economy and traditional sectors.



With solid capabilities in investment research, our team not only provides forward-looking analysis for the market, but also collaborates with other departments to achieve the best balance between returns and risks for various projects. Our macro strategy research is at the forefront of the market with rigorous quantitative models and timely reports on hot spots; it has pioneered the area of new economic cycles and 850-day moving average theory. During the Year, our research team was committed to innovation and further enhanced its research capacity through a series of upgrade projects, thereby providing better services to our clients. The key enhancement projects include: the introduction of an artificial intelligence translation system to realise simultaneous publication of bilingual reports in Chinese and English, which further enhances the efficiency of our research report production; the implementation of an encryption process on research reports to strengthen protection of intellectual property; the organisation of internal training courses to improve staff's professional skills and knowledge structure; and the strengthening of close collaboration with media and communication with investors, thereby promoting the overall image of the Company.

## FINANCIAL REVIEW

### Financial performance

For the year ended 31 December 2019, the Group's total revenue and other income was approximately HK\$1,570.2 million, representing an increase of approximately 5.8% over HK\$1,484.3 million in 2018.

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

|                                    | Year ended 31 December |              |                |              |
|------------------------------------|------------------------|--------------|----------------|--------------|
|                                    | 2019                   |              | 2018           |              |
|                                    | HK\$'million           | %            | HK\$'million   | %            |
| Brokerage                          | 138.4                  | 8.8          | 186.3          | 12.6         |
| Corporate finance and underwriting | 120.1                  | 7.6          | 59.9           | 4.0          |
| Asset management and advisory      | 127.2                  | 8.1          | 82.0           | 5.5          |
| Margin financing                   | 228.6                  | 14.6         | 417.5          | 28.1         |
| Investment and loans               | 859.2                  | 54.7         | 690.9          | 46.6         |
| Others                             | 96.7                   | 6.2          | 47.7           | 3.2          |
| <b>Total</b>                       | <b>1,570.2</b>         | <b>100.0</b> | <b>1,484.3</b> | <b>100.0</b> |

The Group's profit for the year ended 31 December 2019 was approximately HK\$500.6 million, representing an increase of approximately 21.8% over HK\$411.0 million in 2018.

## Management Discussion and Analysis

### Operating expenses

Operating expenses and finance costs for the year ended 31 December 2019 amounted to HK\$1,065.2 million (2018: HK\$1,061.9 million), an analysis of which is listed below:

|                                   | Year ended 31 December |              |                |              |
|-----------------------------------|------------------------|--------------|----------------|--------------|
|                                   | 2019                   |              | 2018           |              |
|                                   | HK\$'million           | %            | HK\$'million   | %            |
| Commission and brokerage expenses | 36.6                   | 3.4          | 53.0           | 5.0          |
| Finance costs                     | 355.6                  | 33.4         | 352.2          | 33.2         |
| Staff costs                       | 374.4                  | 35.2         | 361.7          | 34.1         |
| Depreciation                      | 78.1                   | 7.3          | 8.8            | 0.8          |
| Other operating expenses          | 171.3                  | 16.1         | 306.9          | 28.9         |
| Change in impairment allowance    | 49.2                   | 4.6          | (20.7)         | (2.0)        |
| Total                             | <u>1,065.2</u>         | <u>100.0</u> | <u>1,061.9</u> | <u>100.0</u> |

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

Staff costs increased by 3.5% as a result of investment in human resources.

Depreciation increased by 7.9 times due to the reclassification and adjustments to operating leases arising from the adoption of HKFRS 16 Leases.

Other operating expenses decreased by 44.2% mainly due to the reclassification of operating lease charges and the decrease of fund related expenses.

Change in impairment allowance represented the movement of provision computed by using the ECL Model after the implementation of HKFRS 9 Financial Instruments.

### Liquidity, Financial Resources and Gearing Ratio

The Group's cash and bank balances as at 31 December 2019 decreased by HK\$48.9 million to HK\$545.1 million (31 December 2018: HK\$594.0 million).

The Group's net current assets decreased by HK\$1,966.0 million to approximately HK\$7,385.3 million as at 31 December 2019 from HK\$9,351.3 million as at 31 December 2018. The current ratio, being the ratio of current assets to current liabilities, was approximately 2.3 times as at 31 December 2019 (31 December 2018: 6.4 times).

As at 31 December 2019, the Group had borrowings of HK\$9,652.3 million (31 December 2018: HK\$6,423.9 million) while the subordinated loans from the ultimate holding company amounted to HK\$1,000.0 million (31 December 2018: HK\$1,000.0 million).



As at 31 December 2019, the Group's gearing ratio was 160.7% (31 December 2018: 118.3%), as calculated by dividing total borrowings by total equity.

The Directors are of the view that the Group has maintained adequate liquidity for its 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 its 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 result in risks to 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 an asset portfolio management system and monitors its risk exposure regularly to mitigate the interest rate risk by diversifying 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 continuously comply with the relevant rules and regulations.

## Management Discussion and Analysis

### Operational Risk

Our operational 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 controls 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 to 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 2019, there was no charge on Group assets (31 December 2018: Nil).

### Capital Commitments

As at 31 December 2019, the Group had no significant capital commitment.

### Employees and Remuneration Policies

As at 31 December 2019, the Group had a total of 320 employees. Total staff costs amounted to approximately HK\$374.4 million for the year ended 31 December 2019.

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 is determined with reference to their duties, responsibilities, experience and the prevailing market conditions. Mandatory provident fund scheme contributions and insurance packages have been provided to employees in accordance with local laws and regulations. The Group also provides various staff benefits according to among others, the relevant internal policy of the Company. 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 2019, the Group had certain contingent liabilities arising in the ordinary course of business. Please see Note 40 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 2019, the Company had utilised approximately 96.5% 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 4 years.

An analysis of the application/intended application and utilisation of the net proceeds from the Listing as at 31 December 2019 is set out below:

| Application/Intended application   | Net proceeds from the Listing<br>HK\$'million | Utilised amount as at 31 December 2018<br>HK\$'million | Utilised amount during the Year<br>HK\$'million | Utilised amount as at 31 December 2019<br>HK\$'million | Unutilised amount as at 31 December 2019<br>HK\$'million |
|--|---|--|---|--|--|
| 1. Expand margin financing business  | 845.7   | 845.7  | –   | 845.7  | –  |
| 2. Expand asset management and advisory business                             | 281.9   | 281.9  | –   | 281.9  | –  |
| 3. Expand investment and loans business                                      | 187.9   | 187.9  | –   | 187.9  | –  |
| 4. Develop IT infrastructure and internal control systems                    | 187.9   | 59.2   | 63.2  | 122.4  | 65.5   |
| 5. Attract and retain talent as well as optimising human resources structure | 187.9   | 158.0  | 29.9  | 187.9  | –  |
| 6. Working capital and general corporate purposes                            | 187.9   | 187.9  | –   | 187.9  | –  |
| <b>Total</b>   | <b>1,879.2</b>                                | <b>1,720.6</b>   | <b>93.1</b>                                     | <b>1,813.7</b>   | <b>65.5</b>  |

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

TAN Yueheng (*Chairman*)

LI Ying (*President*)

(*resignation effective from 6 November 2019*)

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*)

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

*Certified Public Accountants*

*Registered Public Interest Entity Auditor*

## SHARE REGISTRAR

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

## PRINCIPAL BANKERS

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

## STOCK CODE

HKEX 3329

Reuters 3329.HK

Bloomberg 3329 HK

## COMPANY WEBSITE

[www.bocomgroup.com](http://www.bocomgroup.com)

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



# Biographies of Directors and Senior Management

## BOARD OF DIRECTORS

### Executive Directors

**TAN Yueheng**, aged 57, 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. Mr. TAN is also a director of various subsidiaries 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 and was appointed as a member of the Standing Committee since 13 January 2020. 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.

**CHENG Chuange**, aged 55, 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. Mr. CHENG is also a director of various subsidiaries 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 the 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. Mr. CHENG has been appointed as the vice chairman of the Chinese Securities Association of Hong Kong since June 2019.

## Biographies of Directors and Senior Management

### Non-executive Directors

**WANG Yijun**, aged 48, 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 the Finance College of BOCOM, the deputy general manager of the human resources department of BOCOM and the general manager of the 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 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 Jiangsu 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 and the general manager of the strategic investment department of BOCOM from July 2015 to January 2019.

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 51, 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 services center (business department) of BOCOM since May 2019.

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. She was the general manager of the financial budget department (data and information management center) of BOCOM from November 2013 to April 2019.

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.

## Biographies of Directors and Senior Management

**SHOU Fugang**, aged 58, 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 executive director and chief executive officer of China BOCOM Insurance Company Limited since August 2019.

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, the chairman of Bank of Communications (Hong Kong) Limited from April 2017 to February 2019 and the chairman of China BOCOM Insurance Company Limited from November 2010 to August 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 67, 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) (the 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 honorary president of the Chinese Securities Association of Hong Kong and a member of the 12th Chinese People's Political Consultative Conference Shanghai Committee.



## Biographies of Directors and Senior Management

**MA Ning**, aged 47, 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 65, 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, and as 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 the University of Saskatchewan, Canada in October 1991. He has been 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.

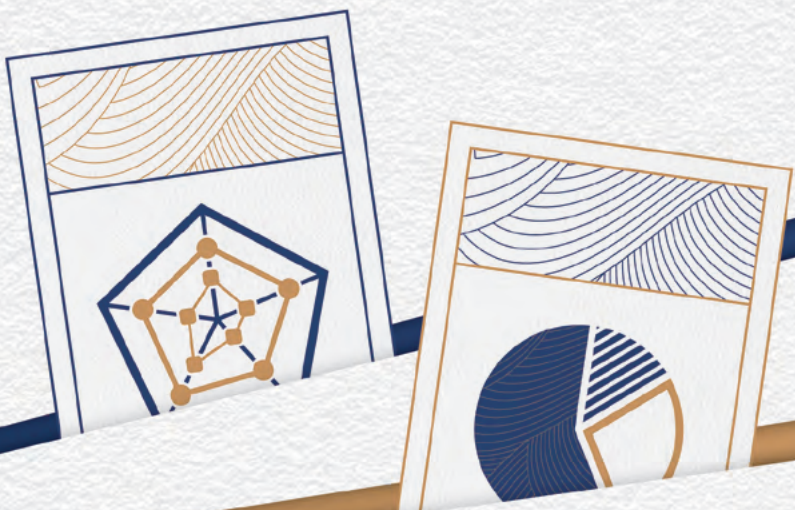
**XI Xuanhua**, aged 47, is a Deputy Chief Executive Officer of the Company and a member of the Executive Committee. Ms. XI was appointed as a Deputy Chief Executive Officer of the Company and a member of the Executive Committee in July 2017. Ms. XI is also a director of various subsidiaries of the Company. Ms. XI joined the Group in August 2005 and has held various positions in the Company. She was a director and head of the China sales desk from 2005 to 2007, the executive director and head of the China sales department from 2007 to 2009, the managing director and head of the equity sales department from 2009 to 2013 and the managing director and head of the institution and equity business from 2013 to 2015. Ms. XI was 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. Ms. XI has been appointed as the Vice Chairman of the Chinese Asset Management Association of Hong Kong since March 2020.

**SU Fen**, aged 48, 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 is also a director of various subsidiaries of the Company. 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 BOCOM Fund. In 2011, he was promoted to the position of chief compliance officer of BOCOM Fund 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's degree in 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 2019.

## 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 2019 and their particulars (including principal activities) are set out in Note 19 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 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, and particulars of important events affecting the Group that have occurred since the end of 2019 are set out in the "Chairman's Statement" and "Management Discussion and Analysis" sections of this annual report. 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 94 to 95.

The Directors recommended the payment of a final dividend of HK\$0.09 per Share to the Shareholders whose names appear on the register of members of the Company on 29 June 2020. 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 9 July 2020.

## 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 16 June 2020 to 19 June 2020 (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 19 June 2020, 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 by no later than 4:30 p.m. on 15 June 2020.

## CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO FINAL DIVIDEND

The register of members of the Company will be closed on 29 June 2020, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend during which period no transfer of 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 by no later than 4:30 p.m. on 26 June 2020. Shares of the Company will be traded ex-dividend from 24 June 2020.

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

## Report of the Directors

### DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in Note 43 to the consolidated financial statements and in the consolidated statement of changes in equity on page 98 of this annual report, respectively.

As at 31 December 2019, the Company's reserves available for distribution, calculated in accordance with the Companies Ordinance, amounted to HK\$386,210,000.

### DONATIONS

During the Year, the Group made charitable donations amounting to HK\$111,000.

### SHARE CAPITAL

Details of the Shares issued by the Company are set out in Note 35 to the consolidated financial statements for the year ended 31 December 2019.

### 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 2019.

### DIRECTORS

The Directors during the year ended 31 December 2019 and up to the date of this Report of the Directors are:

#### Executive Directors

TAN Yueheng

LI Ying (*resignation effective from 6 November 2019*)

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. WANG Yijun, Mr. MA Ning and Mr. LIN Zhijun will retire by rotation at the 2020 annual general meeting. Mr. WANG Yijun will devote more time to his other work at BOCOM and will not offer himself for re-election at the annual general meeting while all other retiring Directors, Mr. MA Ning and Mr. LIN Zhijun, being eligible, have offered 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. CHENG Chuange, Ms. XI Xuanhua, Mr. SU Fen, Ms. YI Li, Ms. CHOI Suet Yin, Ms. XIONG Ying, Mr. LI Wu, Mr. ZHANG Xiangbing, Mr. LIU Yingjie, Ms. MA Yuan, Mr. FU Yang and Mr. ZOU Chuantai.

## CHANGE OF INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Mr. TAN Yueheng is a member of the Chinese People's Political Consultative Conference Gansu Provincial Committee and was appointed as a member of the Standing Committee with effect from 13 January 2020.

Mr. SU Fen was appointed as a director of BOCOM International Global Fund SPC and Preferred Investment Management Limited with effect from 5 September 2019 and 28 October 2019, respectively.

Ms. XI Xuanhua was appointed as the vice chairman of the Chinese Asset Management Association of Hong Kong with effect from 20 March 2020.

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.

Biographical information of the Directors and Chief Executives is set out on pages 19 to 23 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

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

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 provides that, subject to the Companies Ordinance, 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.



## Report of the Directors

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 AGREEMENT

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

### DIRECTORS' INTEREST IN COMPETING BUSINESSES

During the Year, the Non-executive Directors, Mr. WANG Yijun, Ms. LIN Zhihong and Mr. SHOU Fugang, had 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 connected transactions, continuing connected transactions and material related party transactions are set out in this Report of the Directors and Note 37 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 2019, 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   | 140,000               | 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   | 80,000                | 0.00  | 0.00  |

Save as disclosed above, as at 31 December 2019, 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.

## Report of the Directors

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

For the year ended 31 December 2019, none of the Company or any of its subsidiaries had signed any agreements to enable the Directors to acquire benefits by means of the acquisition of shares or debt securities (including debentures) of the Company or any other body corporate and none of the Directors, their spouses or their 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 2019, the interests and short positions of all 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 the Directors' knowledge, were as follows:

| Name of Shareholder | Capacity  | Long position/<br>Short position | Total number<br>of Shares held | Approximate<br>percentage<br>to the total<br>number<br>of issued<br>Shares of the<br>Company (%) |
|---------------------|---|----------------------------------|--------------------------------|--|
| BOCOM               | Interest in a controlled corporation,<br>beneficiary of trust <sup>(1)</sup>              | Long position                    | 2,000,000,000                  | 73.14  |
| BOCOM Nominee       | Interest in a controlled corporation,<br>Trustee (other than bare trustee) <sup>(2)</sup> | 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 the voting rights of Expectation Investment which is the beneficial owner of 500,000 Shares.

Save as disclosed above, as at 31 December 2019, the Company was 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 were 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") became 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 is a party to the Further Referral Agreement instead of BOCOM (Hong Kong Branch).

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 2019 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 2019 and (if applicable) provided all relevant information as reasonably requested by the Independent Non-executive Directors for their annual review.

Based on the confirmations 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.

## CONNECTED TRANSACTIONS

The following transactions constituted connected transactions under the Listing Rules during the year ended 31 December 2019:

(a) Formation of the BOCOM Science and Technology Innovation Equity Investment Fund

On 15 April 2019, a wholly-owned subsidiary of the Company, Shanghai Boli (as the general partner), entered into a partnership agreement with BOCOM Guo Xin Asset Management (as the limited partner), in relation to the formation of a partnership named BOCOM Science and Technology Innovation Equity Investment Fund (the "Original Partnership Agreement").

Pursuant to the Original Partnership Agreement, the total capital contribution by all partners to BOCOM Science and Technology Innovation Equity Investment Fund shall be RMB200 million, of which each of Shanghai Boli and BOCOM Guo Xin Asset Management shall contribute RMB100 million. The general partner is entitled to and will appoint BOCOM International (Shanghai) as the investment manager of the partnership for the provision of investment and management consulting services to the partnership.

On 23 December 2019, Shanghai Boli entered into a new partnership agreement with BOCOM Guo Xin Asset Management, Qingdao West Coast New Area Ocean Holding Group Company Limited (as a limited partner), Yancheng Oriental Investment Development Group Company Limited (as a limited partner) and Liuzhou Liu Dong Yin Dao Fund Company Limited (as a limited partner) to terminate and replace in entirety the Original Partnership Agreement (the "New Partnership Agreement"). The New Partnership Agreement has, in effect, amended certain terms of the Original Partnership Agreement, including but not limited to changing the total capital contribution by all partners to the partnership to RMB325 million. However, the capital contribution by each of Shanghai Boli and BOCOM Guo Xin Asset Management to the partnership remained unchanged.

The purpose of the BOCOM Science and Technology Innovation Equity Investment Fund is to carry on the business of investing to achieve satisfactory return to all partners thereto primarily through direct or indirect investments in equity or engagement in equity investment related activities.

It shall have a term of ten years from the date the partnership was established unless wound up and dissolved sooner in accordance with the provisions of the New Partnership Agreement. The investment period of the partnership shall be for a period of three years from the day immediately following the date on which the initial capital contribution by all partners was due, and the management and exit period shall be for a period of two years following the lapse of the investment period, which may be extended twice, each for a period not exceeding one year, if approved by all members of the investment strategy committee of the BOCOM Science and Technology Innovation Equity Investment Fund, which is mainly responsible for reviewing and deciding on the investment-related matters proposed by the general partner. Moreover, if the general partner considers it necessary to further extend the management and exit period, it shall obtain all partners' approval in a partners' meeting for such further extension.

All the distributable proceeds attributable to the BOCOM Science and Technology Innovation Equity Investment Fund shall be distributed in the following order of priority:

- (i) 100% to each partner in proportion to its respective paid-in capital contribution until each partner has received an amount equal to its aggregate paid-in capital contribution to the partnership;
- (ii) 100% to each partner in proportion to its respective paid-in capital contribution until each partner has received an amount equal to 8% per annum of its aggregate paid-in capital contribution calculated based on the number of days of its investment in the partnership as specified in the New Partnership Agreement; and
- (iii) 80% to all partners in proportion to their respective paid-in capital contribution and 20% to BOCOM International (Shanghai).

BOCOM holds approximately 73.14% of the issued Shares and is a connected person of the Company. As BOCOM Guo Xin Asset Management is a subsidiary of BOCOM, it is an associate of BOCOM and hence a connected person of the Company. As such, the formation of the BOCOM Science and Technology Innovation Equity Investment Fund constituted a connected transaction of the Company under the Listing Rules.

**(b) Formation of the Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund**

On 24 July 2019, a wholly-owned subsidiary of the Company, Shanghai Bole (as a general partner), Chong Qing Shi Jiang Bei Zui Equity Investment Fund Management Company Limited (as a general partner), BOCOM Science and Technology Innovation Equity Investment Fund (as a limited partner) and Chong Qing Liang Jiang Xin Qu Zhan Xin Service Industry Equity Investment Fund Partnership Enterprise (Limited Partnership) (as a limited partner) entered into a partnership agreement in relation to the formation of a partnership named Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund.

The total capital contribution by all partners to the Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund shall be RMB100 million, of which each of Shanghai Bole and BOCOM Science and Technology Innovation Equity Investment Fund shall contribute RMB1 million and RMB50 million, respectively.

The purpose of the Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund is to carry on the business of investing in enterprises in the strategic new service area.

It is expected to have a term of eight years from the date the partnership is established unless wound up and dissolved sooner in accordance with the provisions of the partnership agreement. The investment period of the partnership is expected to be for a period of three years and for a period of two years following the lapse of the investment period is expected to be the exit period. Either the investment or exit period may be extended by the consent of all partners provided that the extension shall not render the term of the partnership to exceed eight years and shall not exceed the remaining term of Chong Qing Liang Jiang Xin Qu Zhan Xin Service Industry Equity Investment Fund Partnership Enterprise (Limited Partnership).



## Report of the Directors

Within 30 days upon the exit of any invested project and the receipt of the distributable proceeds attributable to the partnership from such project, distribution shall be made in proportion to each partner's actual capital contribution to the invested project in the following order of priority:

- (i) 100% to each partner until each partner has received an amount equal to its aggregate paid-in capital contribution to the invested project;
- (ii) 100% to each partner until each partner has received an amount equal to 8% of its aggregate paid-in capital contribution to the invested project calculated based on the number of days as specified in the partnership agreement; and
- (iii) 80% to all partners in proportion to their aggregate paid-in capital contribution to the invested project and 20% to the general partners, of which Shanghai Bole shall be entitled to 51% whereas Chong Qing Shi Jiang Bei Zui Equity Investment Fund Management Company Limited shall be entitled to the remaining 49%.

Shanghai Bole is an indirect wholly-owned subsidiary of the Company whereas BOCOM Science and Technology Innovation Equity Investment Fund is an indirect non-wholly-owned subsidiary of the Company. As BOCOM, through BOCOM Guo Xin Asset Management, holds more than 30% of the partnership interests in BOCOM Science and Technology Innovation Equity Investment Fund, BOCOM Science and Technology Innovation Equity Investment Fund is a connected person of the Company. As such, the formation of the Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund constituted a connected transaction of the Company under the Listing Rules.

### (c) Reasons for and benefits of the connected transactions

The Group has endeavoured in exploring opportunities for potential investments with a view to generating revenue and achieving better returns for its Shareholders. The Directors believed that the formation of the BOCOM Science and Technology Innovation Equity Investment Fund and the Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund represented good investment opportunities for the Group to diversify the Group's investment portfolio and generate stable income for the Group.

Further, entering into the New Partnership Agreement enabled the admission of new limited partners into the BOCOM Science and Technology Innovation Equity Investment Fund, which will not only provide it with more funds to make investments to achieve satisfactory return to all partners thereto, but will also enhance the confidence of potential investors in participating in the investment of the partnership. The admission of new limited partners will also diversify the risk of the Group with respect to its investment in the BOCOM Science and Technology Innovation Equity Investment Fund.

In view of the above, the Directors (including the Independent Non-executive Directors) were of the view that the abovementioned transactions were in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole. Due to the executive roles of Mr. WANG Yijun, Ms. LIN Zhihong and Mr. SHOU Fugang in the BOCOM Group, such Non-executive Directors had abstained from voting on the relevant Board resolutions.

## CONTINUING CONNECTED TRANSACTIONS

The following transactions constituted continuing connected transactions under the Listing Rules during the year ended 31 December 2019:

### (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; and
- 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; and
- 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 the 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.

## Report of the Directors

The Financial Services Framework Agreement expired 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 cap in respect of the transactions contemplated under the Financial Services Framework Agreement for the year ended 31 December 2019 and the respective actual amounts received/paid in 2019 are as follows:

|   | Annual cap<br>for the year<br>ended<br>31 December<br>2019<br>(HK\$ million) | Actual amount<br>for the year<br>ended<br>31 December<br>2019 |
|---|--|---|
| Revenue received by the Group from the BOCOM Group        | 151.0  | 41.6  |
| Fees and commissions paid by the Group to the BOCOM Group | 51.1   | 6.5   |

### (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 expired 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 cap in respect of the transactions contemplated under the Derivatives Transactions Framework Agreement for the year ended 31 December 2019 and the respective actual amounts received/paid in 2019 are as follows:

|  | Annual cap for<br>the year ended<br>31 December<br>2019<br>(HK\$ million) | Actual amount<br>for the year<br>ended<br>31 December<br>2019 |
|--|---|---|
| Trading gains or losses to the Group <sup>Note</sup> | 92.9  | 15.5  |
| Maximum fair value recorded as financial assets      | 90.6  | 2.3   |
| Maximum fair value recorded as financial liabilities | 90.6  | –   |

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 expired 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.



## Report of the Directors

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 year ended 31 December 2019 and the actual amount paid in 2019 is as follows:

|   | Annual cap for<br>the year ended<br>31 December<br>2019<br>(HK\$ million) | Actual amount<br>for the year<br>ended<br>31 December<br>2019 |
|---|---|---|
| Rental paid by the Group to the BOCOM Group | 10.0  | 9.2   |

### 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 into in accordance with the 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 caps as set by the Company.

The related party transactions in respect of items denoted with “\*” as disclosed in Note 37 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 2019.

### Renewal of Continuing Connected Transactions

The Company intends to continue to enter into transactions of a similar nature after 31 December 2019. The automatic renewal of each of the Framework Agreements and the proposed annual caps has been approved by the relevant authoritative bodies (including the Board and/or the independent Shareholders as applicable) in accordance with the applicable Listing Rules and shall take effect thereafter. For details, please refer to the announcements of the Company dated 26 March 2019, 25 April 2019 and 14 June 2019, and the circular dated 17 May 2019.

## 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 to the Listing Rules for the Year is set out in the “Corporate Social Responsibility Report” section 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” section 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 2019 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 2019 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 have 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.

## Report of the Directors

### EVENT AFTER THE YEAR UNDER REVIEW

Please refer to the details set out in Note 46 to the consolidated financial statements.

### INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 December 2019 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, 25 March 2020

# 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 2019, save as disclosed in this report, the Company has complied with all the code provisions set out in the Corporate Governance Code.

## CORPORATE GOVERNANCE FRAMEWORK

### THE BOARD

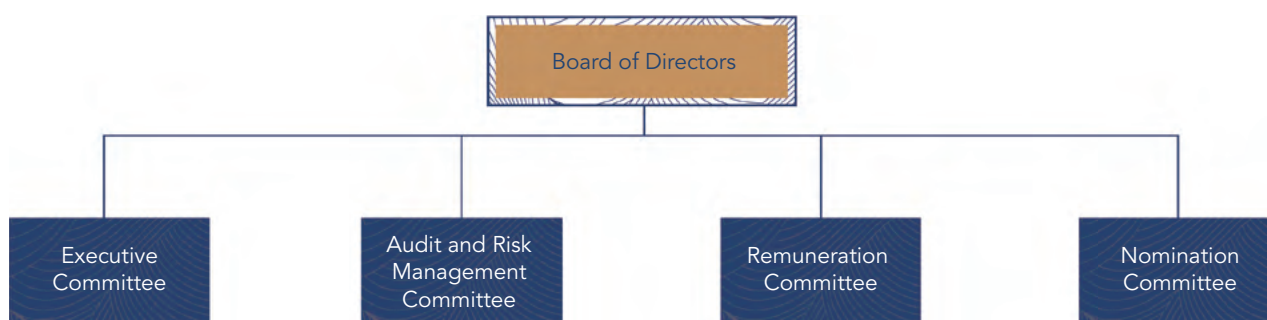
#### Roles and Responsibilities of the Board and the Senior Management

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 risk management and internal control policies, assessing the effectiveness of the 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 operational efficiency, the Board has established the Executive Committee, Audit and



## Corporate Governance Report

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 from time to time. The Board's main corporate governance duties include:

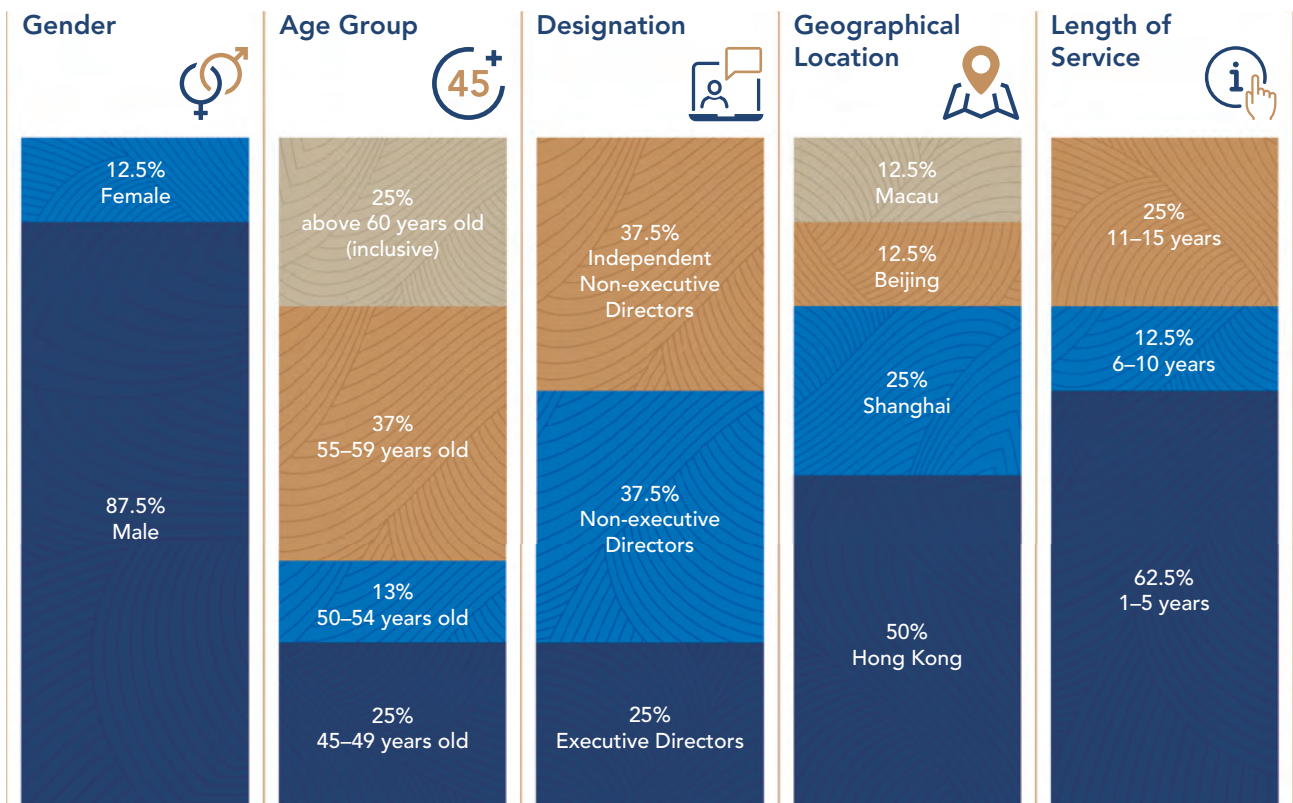
- (a) to develop and review policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance where 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 2019, the Board consists of 8 Directors, comprising 2 Executive Directors, Mr. TAN Yueheng 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. Mr. LI Ying resigned as an Executive Director and the President of the Company with effect from 6 November 2019 for reason of personal career development. The Board has maintained an appropriate mix of expertise and experience in industry knowledge, business management, regulatory compliance and risk management to enable it to carry out its duties effectively. The Directors' biographical details are set out in the "Biographies of Directors and Senior Management" section of this annual report. An analysis of the Board's composition as at 31 December 2019 is set out below:



## Corporate Governance Report

During the Year, the Company had 3 Independent Non-executive Directors representing over one-third of the Board with 1 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 to be independent.

### 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 in office the longest 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.

### Board Diversity and Selection of Directors

The board diversity policy of the Company sets out objectives for the Company to ensure that its Board has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategies and maintain the effectiveness of the Board's decision making. In order to achieve a balanced board as a whole, appointments and re-elections to 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, skills, knowledge, independence, length of service and values and contributions to the Board.

The Nomination Committee will take into account the related requirements of the 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 considered from a wide range of backgrounds, and be sought through appropriate means including recommendations or external consultants, where necessary. In reviewing and recommending to the Board of any new Director appointment, the Nomination Committee will consider the following non-exhaustive factors:

- the structure, size and composition (including the skills, knowledge and experience) required for the Board;
- succession plans for the Directors and other senior executives, taking into account the challenges and opportunities faced by the Company, and the skills and expertise that are therefore needed for the Board in the future;

- the leadership needs of the Group, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace;
- the candidate’s merit and time commitment to the position; and
- the independence of independent non-executive Directors (where applicable).

### 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 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 the obligations and duties of a director of a listed company on a timely basis. 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 2019 is summarised as follows:

| Directors                                  | Types of training                             |  |
|--|---|--|
|  | Reading materials/<br>articles <sup>(1)</sup> | Attending in-house<br>briefings/seminars/<br>workshops/forums/<br>conferences <sup>(2)</sup> |
| <b>Executive Directors</b>                 |   |  |
| Mr. TAN Yueheng                            | ✓   | ✓  |
| Mr. LI Ying <sup>Note (3)</sup>            | ✓   | ✓  |
| Mr. CHENG Chuange                          | ✓   | ✓  |
| <b>Non-executive Directors</b>             |   |  |
| Mr. WANG Yijun                             | ✓   | ✓  |
| Ms. LIN Zhihong                            | ✓   | ✓  |
| Mr. SHOU Fugang                            | ✓   | ✓  |
| <b>Independent Non-executive Directors</b> |   |  |
| Mr. TSE Yung Hoi                           | ✓   | ✓  |
| Mr. MA Ning                                | ✓   | ✓  |
| Mr. LIN Zhijun                             | ✓   | ✓  |



## Corporate Governance Report

### Notes:

- (1) Materials/articles, newspapers and journals on updates on relevant statutory and regulatory requirements, business and market changes, developments on the financial and economic environment, corporate governance, environmental, social and governance reporting and amendments to the Listing Rules.
- (2) In-house briefings/seminars/workshops/forums/conferences related to topics including director's power and duties under the regulatory requirements, and their responsibilities and continuing obligations.
- (3) Resigned with effect from 6 November 2019.

### 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, operations 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 provides for the Board meetings and Board committee meetings to be held by way of electronic means of communication. All Directors are provided with the 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, may 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 to ensure that they are kept informed of the Group's performance and developments and assist them in discharging their duties.

The attendance records of Directors at Board and Board committee meetings for the year ended 31 December 2019 are set out as follows:

| Name of Directors                          | No. of Meetings Attended/Held |                     |                                     |                        |                      |
|--|-------------------------------|---------------------|-------------------------------------|------------------------|----------------------|
|  | Board                         | Executive Committee | Audit and Risk Management Committee | Remuneration Committee | Nomination Committee |
| <b>Executive Directors</b>                 |                               |                     |                                     |                        |                      |
| Mr. TAN Yueheng                            | 8/8                           | 33/33               | –                                   | –                      | 1/1                  |
| Mr. LI Ying <sup>Note (2)</sup>            | 7/7                           | 26/27               | –                                   | –                      | –                    |
| Mr. CHENG Chuang                           | 8/8                           | 33/33               | –                                   | –                      | –                    |
| <b>Non-executive Directors</b>             |                               |                     |                                     |                        |                      |
| Mr. WANG Yijun                             | 7/8                           | –                   | –                                   | –                      | 0/1                  |
| Ms. LIN Zhihong                            | 8/8                           | –                   | 3/3                                 | –                      | –                    |
| Mr. SHOU Fugang                            | 8/8                           | –                   | –                                   | 1/1                    | –                    |
| <b>Independent Non-executive Directors</b> |                               |                     |                                     |                        |                      |
| Mr. TSE Yung Hoi                           | 8/8                           | –                   | 3/3                                 | 1/1                    | 1/1                  |
| Mr. MA Ning                                | 8/8                           | –                   | –                                   | 1/1                    | 1/1                  |
| Mr. LIN Zhijun                             | 8/8                           | –                   | 3/3                                 | 1/1                    | 1/1                  |

Notes:

- (1) 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.
- (2) Resigned with effect from 6 November 2019.

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

### 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 had complied with the Model Code during the year ended 31 December 2019 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 to ensure 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 4 members, namely, Mr. TAN Yueheng (Chairman), Mr. CHENG Chuange, both 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 2019, the Executive Committee held 33 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. During the Year, 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.

## Corporate Governance Report

For the year ended 31 December 2019, the Audit and Risk Management Committee held 3 meetings. The main duties and major works performed by the Audit and Risk Management Committee during the Year included the review and approval of the recommendations to the Board on:

- the annual results of the Group for the year ended 31 December 2018, the 2018 annual results announcement and the 2018 annual report;
- the interim results of the Group for the six months ended 30 June 2019, the 2019 interim results announcement and the 2019 interim report;
- the effectiveness of the Group's risk management, internal control systems and internal audit function;
- re-appointment of the auditor; and
- formulation of management rules on the Company's risk appetite.

### 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. During the Year, 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 2019, the Remuneration Committee held 1 meeting. The main duties and major works performed by the Remuneration Committee during the Year included the review and approval of the recommendations to the Board on:

- the overall remuneration packages of the Company, the policy for the remuneration of Executive Directors and senior management and their remuneration package; and
- renewal of Directors' appointment letters.

### 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, with due regard for the benefits of board diversity, as set out under the board diversity policy of the Company. For details please refer to the "Board Diversity and Selection of Directors" section of this report.

During the Year, 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 2019, the Nomination Committee held 1 meeting. The main duties and major works performed by the Nomination Committee during the Year included the review and approval of:

- the existing structure of the Board, Directors' performance, diversity of the Board, and independence of the Independent Non-executive Directors; and
- the recommendation to the Board on the re-election of Directors and renewal of Directors' appointment letters.

## 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.

With effect from 19 May 2020, Ms. Yi will act as the sole company secretary and at the same time, Ms. Kwong will cease to act as a joint company secretary of the Company. For details please refer to the announcement of the Company dated 16 April 2020.

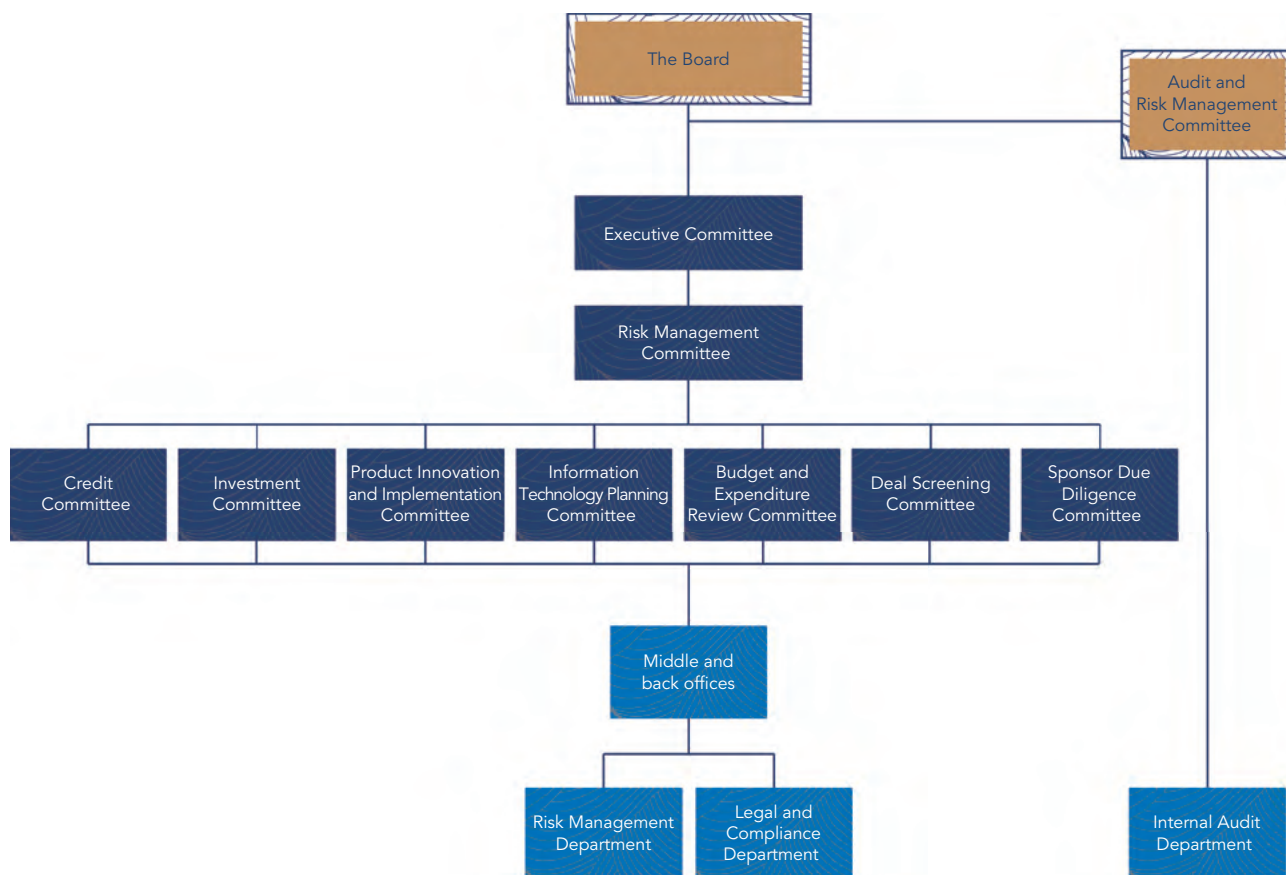
## RISK MANAGEMENT AND INTERNAL CONTROL

The Company is committed to upholding good corporate governance and has 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 builds its risk management culture into every level of the Group.



## Corporate Governance Report

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 processes. 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 the 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

### 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 an 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 applicable) and members of senior management will normally attend the annual general meetings 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. MA Ning and Mr. LIN Zhijun attended the annual general meeting and extraordinary general meeting held on 14 June 2019. Representatives from PricewaterhouseCoopers, the auditor, and Altus Capital Limited, the independent financial adviser in connection with the renewal of the continuing connected transactions, were also present at the annual general meeting and extraordinary general meeting respectively, together with the abovementioned Directors, to respond to enquiries raised by the Shareholders, if any.

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. Corporate communications with Shareholders will be posted on the Stock Exchange's website ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.bocomgroup.com](http://www.bocomgroup.com)) for Shareholders' information.

## Corporate Governance Report

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

### Dividend Policy

The Board has 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 adopting scrip dividend schemes and other appropriate alternatives to provide returns 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 dividends. The Board reviews the dividend policy from time to time.

### 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 that the Directors 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 it at the registered office of the Company for the attention of the Board) or in electronic form (by email to [ir@bocomgroup.com](mailto:ir@bocomgroup.com)).

### Procedures for Shareholders to Put 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 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 it at the registered office of the Company for the attention of the Board) or in electronic form (by email to [ir@bocomgroup.com](mailto: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 confidentiality when handling inside information and the publication of relevant disclosures to the public as soon as practicable. Under this policy, the Company disseminates information to specified persons on a need-to-know basis, and 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 the procedures and precautionary measures for reporting or leakage of inside information of the Group.

## EXTERNAL AUDITOR'S REMUNERATION

For the year ended 31 December 2019, 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              | 3,400   |
| Taxation and other advisory services | 900     |

## 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 third corporate social responsibility report issued by the Group. It aims to set out the principles and performance of the Group in relation to sustainable development in fulfilling its corporate social responsibility in 2019 and respond to material issues of concern to key stakeholders. Please see the “Corporate Governance Report” section of this annual report or visit the official website of the Group (<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 current 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 the 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 2019 to 31 December 2019 (the “Reporting Period”). In order to enhance the completeness of the report, some of the content is appropriately traced backward or forward.

### 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](mailto:ir@bocomgroup.com)

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



## SUSTAINABLE DEVELOPMENT OBJECTIVES

It is the Group's long-term strategic development goal to develop itself into a comprehensive wealth management and financial services institution with global influence and market competitiveness in the region. While developing its business, the Group also seeks to concurrently fulfil its environmental and social responsibilities and continuously promote the sustainable development of the Group.

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





## Corporate Social Responsibility Report

| The implementation of sustainable development objectives during the Reporting Period: |  |
|---|--|
| Steady Management   | <ul style="list-style-type: none"> <li>Adhering to the strategy of “dealing with changes through stability, making improvements through innovation” to balance risks and returns</li> </ul>  |
| Care for Employees  | <ul style="list-style-type: none"> <li>Attaching great emphasis to employees’ health and well-being, and striving to create a caring, efficient and collaborative working environment</li> <li>Strengthening business ethics, anti-corruption and anti-money laundering trainings to regulate compliance with high ethical standards in business practices by employees</li> </ul>   |
| Care for the Environment  | <ul style="list-style-type: none"> <li>Reducing the environmental impact, the overtime air-conditioning charges of the Hong Kong Headquarters Office decreased by 20% as compared with the previous year</li> <li>Encouraging employees to protect the environment and work together to combat climate change</li> <li>Supporting green finance business, and combining green investment with sustainable development needs</li> </ul> |
| Care for the Community  | <ul style="list-style-type: none"> <li>Continuously supporting community-friendly developments, supporting promotion and education on ecological environment protection for all walks of life</li> </ul>   |

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE SYSTEM

In order to further promote the sustainable development work of the Group and to implement the concept of sustainable development throughout the Group’s daily operations, we formulated the Administrative Measures for Environmental, Social and Governance (“ESG”) Task Force (“Administrative Measures for Task Force”), which aims to clarify the ESG Task Force (“Task Force”) structure, and specifies the responsibilities of the Task Force members and reporting procedures for sustainable development work.

The Board is fully responsible for the Group’s ESG strategies and reporting; its subordinate Task Force consists of an Executive Director (who is also a member of senior management, acting as the leader), the Executive Office (acting as the secretariats) and representatives of seven other relevant functional departments/organisations. In daily operations, the Task Force performs its duties in accordance with the Administrative Measures for Task Force, and regularly reports to the Board.

The major duties of Task Force are as follows:

- 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 Task Force conducted one meeting by way of circulation of written proposals and a work interview to discuss matters related to the 2019 ESG disclosure of the Group.

### STAKEHOLDER ENGAGEMENT AND MATERIALITY ASSESSMENT

In order to achieve sustainable corporate development, the Group understands 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 materiality assessment during the Reporting Period:

#### Step 1: Identify Key Stakeholders and Establish Daily Communication Mechanisms

The Task Force referred to "How to Prepare an ESG Report" issued by the 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.



## Corporate Social Responsibility Report

| Communication Channels with Stakeholders |  |
|--|--|
| Regulatory Authorities                   | <ul style="list-style-type: none"> <li>• Meetings</li> <li>• Written Responses to Public Consultations</li> <li>• Compliance Reports</li> </ul>  |
| Company Employees                        | <ul style="list-style-type: none"> <li>• Performance Appraisals</li> <li>• Meetings and Interviews/Briefings</li> <li>• Seminars/Workshops/Lectures/Trainings</li> <li>• Team Building Activities/Volunteer Activities</li> <li>• Outstanding Employee Award and Recognition Events</li> </ul> |
| Customers                                | <ul style="list-style-type: none"> <li>• Customer Satisfaction Surveys and Feedback</li> <li>• Customer Service Centres/Intelligent Customer Service Robot</li> <li>• Daily Operations/Interactions</li> <li>• Telephone/E-mail Communication</li> </ul>                                       |
| Investment Sector                        | <ul style="list-style-type: none"> <li>• Corporate Communications e.g. Interim Reports, Annual Reports, Announcements and Circulars</li> <li>• Investor Conferences/Roadshows</li> <li>• Analyst Conferences</li> <li>• Roadshow Activities</li> <li>• Investor Mailbox</li> </ul>             |
| Financial Sector Peers                   | <ul style="list-style-type: none"> <li>• Strategic Cooperations</li> <li>• Financial Sector Sharings and Discussions</li> </ul>  |
| Community                                | <ul style="list-style-type: none"> <li>• Volunteer Activities</li> <li>• Community Investment Schemes</li> <li>• Charity Donations</li> </ul>  |
| Business Partners                        | <ul style="list-style-type: none"> <li>• Meetings/Daily Communications</li> <li>• Assessments</li> <li>• Work Inspections and Supervision</li> </ul>   |
| Professional Bodies                      | <ul style="list-style-type: none"> <li>• Meetings</li> <li>• Regular Visits</li> <li>• Working Groups</li> </ul>   |
| Media                                    | <ul style="list-style-type: none"> <li>• Media Briefings</li> <li>• Press Releases</li> <li>• Results Announcements</li> <li>• Media Interviews</li> <li>• Wechat Official Account</li> </ul>  |

### Step 2: Key Stakeholders Assess Sustainable Development Issues

In order to meet the expectations of various stakeholders regarding the Group and render more specificity to this report, we invited both internal and external stakeholders to participate in this materiality evaluation through questionnaires, including the key stakeholders identified in Step 1.

Step 3: Verify and Review Material Issues

By analysing the evaluation of sustainable development issues by different stakeholders, we have selected 15 material issues across three areas: economic, environmental and social. The Task Force confirmed the relevant material 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**

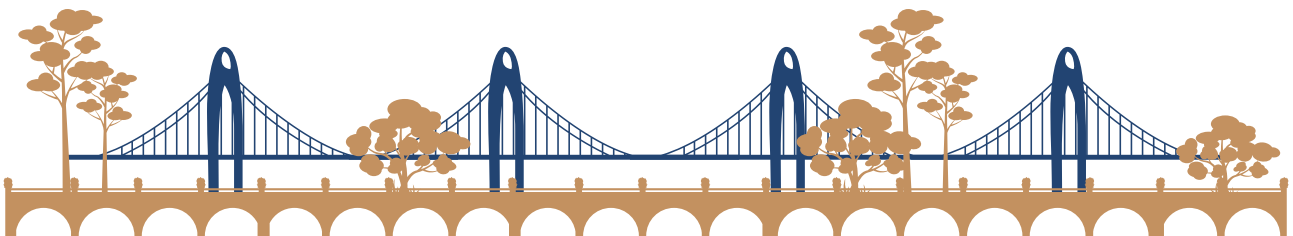
- Risk Management and Internal Control
- Protecting Personal Data and Privacy of Clients
- Anti-corruption and Bribery
- Optimise Financial Services
- Anti-Money Laundering and Counter-Terrorist Financing

**Social**

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

**Environmental**

- Waste Disposal and Recycling
- Green Office Measures
- Greenhouse Gas Emissions
- Utilisation and Application of Resources
- Green Finance
- Environmental Protection Education and Promotion



\* The above topics are ranked in order of materiality (from top to bottom) according to the stakeholders’ survey results

### STEADY MANAGEMENT TO PROMOTE HIGH-QUALITY DEVELOPMENT

As one of the earliest licensed securities firms with a PRC background in Hong Kong, and adhering to the strategy of “dealing with changes through stability, making improvements through innovation”, the Group proactively expands into new businesses and improves its products and services, continuously strengthens its financial technology capabilities, improves its operations, enhances coordination and cooperation between the business department and the risk management team, and increases efforts in enforcing greater introspection and prudent internal controls, so as to optimise the balance between risks and returns. In addition, with our outstanding capability in operations management and debt management, we were assigned a first-time credit rating by Fitch Ratings and Moody’s Investor Service, both being major international credit rating agencies, becoming the highest-rated securities company with a PRC background listed in Hong Kong.



Assigned a first-time credit rating by two major international credit rating agencies



### Risk Management and Internal Control

The Group 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, established risk management and internal control processes, and proactively cultivated a risk management culture at all levels within the Group, so as to achieve effective corporate governance and to monitor, evaluate and manage the principal risks assumed by the Group in its ordinary course of business.

We have 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 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 in respect of risk management, and Mr. TAN Yueheng, the Chairman and Executive Director, serves as the Chairman of the risk management committee. Please refer to the Risk Management and Internal Control as set out in the section headed “Corporate Governance Report” in this annual report for more details on the Group’s risk management structure, and to the section headed “Environmental, Social and Governance System” in this report for details on the environmental, social and governance structure of the Group.

### Anti-Money Laundering and Counter-Terrorist Financing

The Group is determined to eliminate any money laundering and terrorist financing activities, and regards the fight against them as the joint responsibility of all employees. Employees of the Group must fully understand their responsibilities under the laws, 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, the Weapons of Mass Destruction (Control of Provision of Services) Ordinance, etc., and are responsible for reporting any suspected crimes in accordance with the aforesaid laws.

We have strictly complied with the SFC's Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (the "Guideline"), and have formulated an internal "Measures for 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 judgements on any suspicious transactions and report them promptly. In accordance with the Guideline, we have also designated a compliance officer and a money laundering reporting officer, who are the head of the Legal and Compliance Department and the head of the Anti-money Laundering Compliance Team respectively. They are responsible for supervising all activities to prevent and detect money laundering/terrorist financing within the Group, so as to ensure compliance with laws and regulations.

In addition, as an important measure to effectively prevent and detect money laundering/terrorist financing activities, the Group also provides relevant training for the employees. During the Reporting Period, we organised and our employees participated in ten anti-money laundering trainings, with the aim of enhancing their knowledge and capabilities in fighting against money laundering/terrorist financing activities.

### Anti-corruption and Bribery

The Group operates its business activities with its core values of honesty, integrity and fairness, attaches great emphasis to self-discipline and integrity, and prohibits all forms of corruption and bribery activities. Measures have been taken to ensure that our employees or licensed representatives comply with the Code of Conduct for Persons Licensed by or Registered with the SFC, the Corporate Finance Advisor Code of Conduct, the Fund Manager Code of Conduct and the SFO, and that they perform their duties strictly and uphold their work ethics. Furthermore, our Compliance Manual has clearly specified the "prohibited gift items" as well as the approval process and monitoring measures regarding offering and receiving gifts. Any giving or receiving of gifts shall be recorded by employees from the same department and reviewed for approval in accordance with relevant requirements in Compliance Manual. We clearly prohibit employees from engaging in any form of corruption or bribery activities, such as giving or receiving cash and expensive gifts.



## Corporate Social Responsibility Report

Meanwhile, we are committed to maintaining the highest standards of openness, uprightness and accountability, and encourage our employees and third parties that have business relationship with the Group to report any relevant misconducts in writing or orally in accordance with the Group's Whistleblowing Policy on condition of confidentiality. The competent department of the Group shall issue oral or written confirmation in relation to any report made by an employee as soon as practicable and in any event within seven working days, and shall duly maintain relevant records for follow-up or review. In addition, any third party may report any existing or potential misconduct, fraud or violation to our Legal and Compliance Department upon detection, which will be referred to the Internal Audit Department for recording.

During the Reporting Period, the Directors and employees of the Group have undertaken a total of 24 hours and 517.5 hours of anti-corruption trainings, respectively. Furthermore, we have strictly complied with the Prevention of Bribery Ordinance and all relevant laws and regulations in relation to bribery, extortion and fraud and have not received any lawsuits regarding corruption.

### Protecting Personal Data and Privacy of Clients

The Group has formulated the Cybersecurity Awareness Manual and the Information Security Policy in accordance with the Guidelines for Reducing and Mitigating Hacking Risks Associated with Internet Trading published by the SFC to provide clear guidelines on identifying and responding to cybersecurity risks by focusing on three major information security principles of confidentiality, completeness and accessibility. The Information Technology Department conducts network security awareness training and testing among all employees on a regular basis, so as to ensure that all employees master necessary knowledge on network security, in an effort to safeguard our business interests and the personal data of clients and to protect the security of the network ecological environment.

In order to protect trade secrets and privacy of the clients, confidential and sensitive data (information obtained from clients, corporate members, organisations or business partners) must be:

- used only for the specified purpose for which it was collected;
- kept for the period specified under the laws and regulations or the period in respect of the main purpose;
- kept confidential and must not be divulged without authorisation.

During the Reporting Period, we have strictly abided by the Personal Data (Privacy) Ordinance, and established access rights controls and data storage and access monitoring mechanisms to ensure access to protected resources is restricted to authorised users only. Meanwhile, we ensure that all users' access rights are reviewed regularly at least once a year to ensure the reasonableness of the access rights settings. In addition, when an employee leaves the Company, his/her rights to access the information system must be terminated immediately to prevent corporate and customer information from being disclosed.

### Maintain and Protect Intellectual Property Rights

In order to regulate and strengthen the management and application of our intellectual property rights and to establish a good brand image, in accordance with the Cybersecurity Awareness Manual of the Group, all employees are prohibited from installing pirated software and any software from an unknown source. All software must not be installed until approved by the department head and the Information Technology Department. Moreover, according to the Regulations on Software Licenses and Copyrights in the Group's Information Security Policy, all software must have a genuine computer software license, and all licensed software are managed by the Information Technology Department.

Meanwhile, we register and update our own trademarks and domain names in Mainland China and Hong Kong in a timely manner. During the Reporting Period, we successfully registered eight domain names. In the future, we will continue to enhance the construction of and procedural systems for intellectual property management, and effectively promote the development of intellectual property management.

### Optimise Financial Services

The Group will strive to take the path of high-quality development with respect to scale, build a comprehensive wealth management and financial services institution and realise a balanced development in respect of scale, quality and efficiency, in an effort to create greater values for clients and Shareholders. 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 the various investment and wealth management needs of clients.

In addition, improving our customer experience and satisfaction remains one of our priorities in pursuit of high-quality development. 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. We have also developed standard procedures for handling customer complaints, ensuring that customer complaints, whether by oral or in writing, will be handled promptly 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.

Acknowledging the importance of digital transformation and big data, we have formulated and launched the 3-Year IT Application System and Infrastructure Strategic Plan. We have constantly strengthened our infrastructure via the deployment of an artificial intelligence system in our client services and continuous improvements in our online trading platform. With the assistance of modern technology, we strive to improve the customer's experience in the entire service chain covering every aspect including the brand-new online account-opening system, customised investment advice services, circulation of research reports, middle and back offices processing and completion of transactions, so as to maximise the use of our existing resources and create new business opportunities.

## Corporate Social Responsibility Report

In the future, we will continue to optimise our organisational structure, promote collaborative business development and diversify our product portfolio and services, with the aim of catering for the wealth management and financing needs of domestic and overseas customers.

### Regulate Marketing Management

As a responsible financial services institution, the Group strictly abides by the laws and regulations applicable to the Group such as the SFO, and prohibits illegal advertising and promotion for any products that is not authorised by the SFC. The Compliance Manual of the Group sets out the code of conduct in relation to preparing promotion materials and engaging in advertising and promotion activities. Any speech, interview, meeting or comment to be used in radio, newspapers, journals, magazines or any other media shall be subject to coordination and review by the Executive Office, department head and the Legal and Compliance Department, so as to ensure that all information in the promotion materials are true and fair and are not misleading and to prevent any withholding or omission of facts in bad faith. Moreover, we guarantee the fairness of promotion materials, without false, groundless, misleading or fraudulent information, and we will take both returns and investment risks into consideration.

### Supplier Management

Through our cooperation with suppliers, the Group hopes to 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.

We select suppliers through a stringent selection process with reference to the suppliers recognised by the BOCOM Group, in an attempt to avoid suppliers with a negative track record and reputation in fulfilling their environmental and social responsibilities. In assessing and selecting a supplier, we value its commitment to and performance of its environmental and social responsibilities and incorporate 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 TO BUILD AN ELITE TEAM

The Group believes that talent is the driving force for corporate development and is also an important intellectual asset. With a talented team as the foundation for development, we are committed to developing core competitiveness with abundant and high-quality human resources, creating a working environment full of humanistic care and building an efficient and collaborative elite team to combine the personal development of our employees with the development of the corporation.

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, and the Mandatory Provident Fund Schemes Ordinance. The Group also complied with the PRC Labour Law, the PRC Labour 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 working hours and holiday arrangements.

Before hiring new employees, we 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.

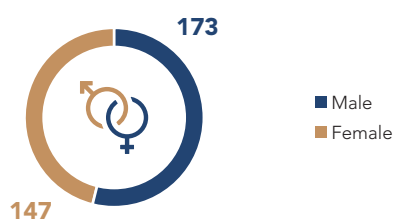


## Corporate Social Responsibility Report

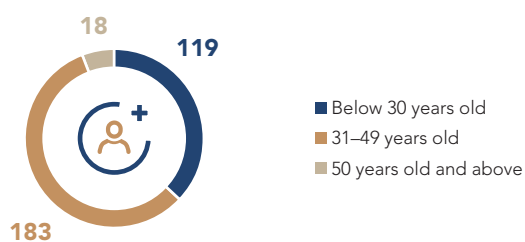
The Group had a total of 320 full-time employees and no part-time employees during the Reporting Period. The number of employees by gender, age group and geographical region are as follows:



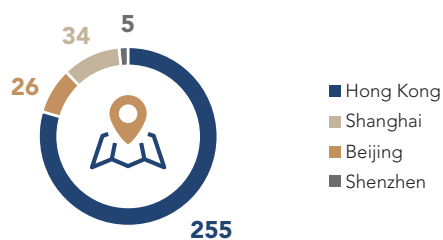
### Number of employees by gender



### Number of employees by age group



### Number of employees by geographical region



### Equal Opportunity

The Group is committed to providing an equal, open and inclusive working 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, we adopt 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.

### Employee Benefits and Welfare

In order to further enhance our competitive strength and maintain a stable elite work force, the Group attaches great importance to the benefits and welfare system of employees to attract and retain talents. In accordance with the Human Resources Management System, we reasonably stipulate employee office hours. Due to the special factors including nature of work, scheduling and staffing of different positions, we have implemented flexible working hours for individual staff. During the Reporting Period, we have strictly complied with the statutory rest day requirements of the place of operation, and do not encourage and never force employees to work overtime. In the event of special circumstances, employees will be allowed to take another rest day.

We offer 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 and paternity leave, and Mandatory Provident Fund schemes. In addition, we have additional paid leave such as welfare sick leave, birthday leave, marriage leave and compassionate leave. Furthermore, in order to reduce the burden of medical expenses on 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.

## Corporate Social Responsibility Report

In order to create a caring, efficient and collaborative working environment, we regularly organise a variety of welfare activities for our employees on various holidays such as the Women's Day and the Mid-autumn Festival every year, proactively promoting the concept of happy work and aiming to create a happy working environment with a sense of belonging.



Tea Party on the Women's Day



Making mooncakes on the Mid-autumn Festival



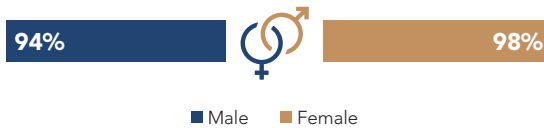
## Employee Training and Development

The Group believes employee training is essential to the business development and talent cultivation of the Company. To keep multiple career development channels open for employees, fully stimulate the enthusiasm and creativity of employees, and form a dynamic employee career development mechanism, we organised or invited external professional training institutions to hold various types of programmes, subject talks, symposiums and team building activities, etc., so that employees can acquire more knowledge and skills that meet the needs of their work so as to keep abreast of the latest developments in the industry to cope with the changing economic and business environment. In addition, 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.

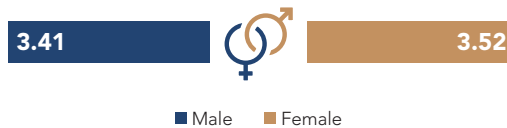
The percentage of employees undertaking training by gender and employee category and the average training hours are as follows (see diagram below):



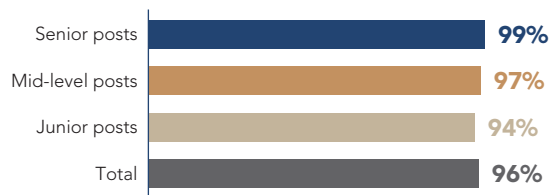
Percentage of employees undertaking training by gender



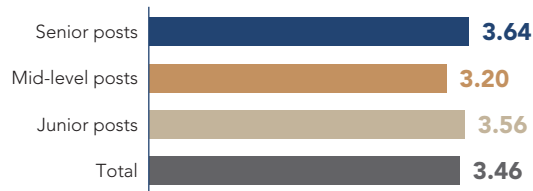
Average training hours per employee by gender (hours)



Percentage of employees undertaking training by employee category



Average training hours per employee by employee category (hours)





## Corporate Social Responsibility Report

During the Reporting Period, we organised orientation training for new employees to further new employees' understanding of the Company's corporate culture philosophy, regulatory requirements and management systems, help them integrate into work faster and improve work efficiency. At the same time, in order to enhance our employees' awareness of and responsibilities regarding legal compliance and professional ethics, we have organised anti-bribery and anti-money laundering training sessions, and jointly organised business ethics and anti-corruption training with the Independent Commission Against Corruption of Hong Kong, with the aim of continually stressing to all our employees the importance of complying with the relevant laws and regulations in the financial services industry, and regulating our employees' adherence to high ethical standards in business practices.



Annual training for anti-bribery and anti-money laundering



To support and broaden the talent pool program, we jointly organised with BOCOM overseas study and training activities for management trainees, whereby the business training will allow them to have a more accurate understanding of the business development strategy, goals and management philosophy in Hong Kong. In the future, we will further carry out various types of training activities to keep improving our employees' professionalism, professional knowledge, teamwork and leadership amongst other skill sets, so as to grow our talent pool.

### Occupational Health and Safety

The Group values the health and well-being of its employees and endeavours to provide a safe, efficient and harmonious working environment for its employees. During the Reporting Period, we have 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 our employees to the largest possible extent. In addition, we provide various health examination scheme for employees according to their job position, gender and age to meet their different health examination needs.

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 fires and explosions and organise regular fire drills, to improve employees' fire safety awareness and ensure they know how to protect themselves in the event of a dangerous situation so as to effectively prevent themselves from suffering injuries. During the Reporting Period, the Group did not have any work-related injuries or fatalities.

We always believe that maintaining a work-life balance is essential for sustainability as well as the physical and mental health of every employee. To this end, we actively organised a variety of activities for our employees, such as a number of sports and handicraft events to enhance the physical fitness of employees and strengthen their cohesiveness as a team so that employees can de-stress and to promote physical and mental health through physical exercise and culture events.



### *Taking Immediate Action to Fight against the Epidemic*

Since the end of 2019, the wide spread of COVID-19 (the "Epidemic") has significantly impacted China and even the whole world. Although the major impact of the Epidemic and the relevant prevention and control measures proactively taken by the Group are not covered by the Reporting Period, we have chosen to make timely disclosure on the measures and actions taken during the Epidemic given its importance to the Group and all stakeholders.

In order to prevent and control the further spread of the Epidemic and to ensure the health and safety of our employees, we promptly set up a steering group for the prevention and control of the Epidemic which consists of the Chairman (as head of the steering group), all members of the Executive Committee and the head of each of the Executive Office, Human Resources Department, Finance and Accounting Department and Administration Department (as steering group members), so as to give full play to their respective duties and functions to coordinate our efforts in the prevention and control of the Epidemic.



#### **I. Strengthening the leading organisations and systems:**

We issued the Notice on Strengthening Safety Measures during the Spring Festival Holiday (《關於做好春節假期安全工作的通知》) before the Spring Festival holiday and have established the reporting system for timely information on the prevention and control of the Epidemic. With the rapid development of the Epidemic, we promptly formulated and issued the Notice on the Prevention and Control of the Epidemic and Work Arrangements after the Spring Festival Holiday (《關於春節假期後疫情防護和工作安排的通知》), the Further Notice on the Current Work Arrangements during the Period of Epidemic Prevention and Control (《關於當前防疫期工作安排的進一步通知》) and other relevant notices, so as to ensure the health and safety of our employees and smooth business operations;



#### **II. Increasing efforts in Epidemic prevention and control:**

We have adopted special work arrangements, and all employees returning to Hong Kong from areas heavily affected by the Epidemic are required to undergo self-quarantine for 14 days and fill out a health report on a daily basis. In addition, no employee will be allowed to enter the work premises without taking a temperature check and wearing a face mask, and we regularly sterilise all public facilities in the work premises every day. In addition, we have cancelled all onsite visits and meetings and arranged for video and telephone conferences instead;



#### **III. Strengthening health protection with a people-oriented approach:**

We promptly implemented centralised procurement of protective face masks which have been distributed to employees of all departments, so as to ensure an ample supply of protective materials such as face masks and hand sanitiser. During the Epidemic period, we paid great attention to the physical health and emotional condition of our employees, learned about their needs and provided more guidance on public opinions. We also sent accurate and reliable information on the Epidemic prevention and control to our employees via our working group account, with the aim of disseminating authoritative popular science knowledge and promoting a healthy lifestyle.

## CARING FOR THE ENVIRONMENT AND PROMOTING EFFICIENT OPERATIONS

As a company that values social responsibility, the Group 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.

### Green Office Measures

The Group 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 tips to achieve energy and resource savings. During the Reporting Period, we carried out environmental protection measures to achieve energy conservation, water and fuel savings as well as waste reduction and recycling, and proactively implemented its green procurement policy. The following are the main energy conservation and environmental protection measures that we implement in the daily office operations:

#### *Saving Paper*

We promotes a paperless working environment and encourages employees to: use electronic methods as much as possible, such as e-mail and scanning, to circulate and communicate information; reduce unnecessary color printing; use double-sided photocopying and reuse recycled paper or waste paper by setting up a waste bin next to the printing machine; and 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-Paper Post

---



**THINK  
BEFORE YOU  
PRINT**

交銀國際  
BOCOM International

雙面複印或列印文件  
Make double-sided copies 

使用再生紙  
Use recycled paper 

列印前先預覽及調整頁面大小  
Use "Print preview" & "Shrink to fit" before printing 

以電子方式保存文件以減少使用紙張  
Go digital - "Scan more" & "Print less" 

減少彩色列印·選用黑白列印  
Reduce color printing, choose black and white printing 

## Corporate Social Responsibility Report

### *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 adjust the temperature and usage hours rationally, so as to enhance energy efficiency.

### *Saving Water*

The Group purchases and installs taps with water saving labels and infrared sensors to avoid wasting water resources. We post water saving notices in each washroom to encourage employees to save water. In addition, we provide cups for guests in the conference room to reduce consumption of bottled water. 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 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 and maximise vehicle fuel efficiency, in an effort 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 and abrasion of vehicle parts.



Hong Kong office areas<sup>1</sup> — Resource consumption

| Class                                    | Consumption in 2019 | Intensity of consumption in 2019 |
|--|---------------------|----------------------------------|
| Fuel consumption (gasoline) <sup>2</sup> | 13,575.00 L         | 2,262.50 L/vehicle               |
| Water consumption <sup>3</sup>           | 806.96 tonnes       | 3.16 tonnes/person               |
| Electricity consumption                  | 882,381.00 kWh      | 3,460.32 kWh/person              |
|  |                     | 189.00 kWh/m <sup>2</sup>        |
| Paper consumption (A4)                   | 7,097.71 kg         | 27.83 kg/person                  |
| Paper consumption (A3)                   | 124.74 kg           | 0.49 kg/person                   |

## Waste Disposal and Recycling

During the Reporting Period, the Group has been in strict compliance with the Waste Disposal Ordinance of Hong Kong. We believe waste reduction requires radical measures starting from the source, and therefore we estimate the amount needed before purchasing office stationery to avoid overstocking. 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. For non-repairable waste electrical appliances and devices, we will pass them to qualified recyclers to recycle and reuse, and ensure they are appropriately handled. For waste toner cartridges or inkjet cartridges, we will arrange for suppliers to recycle them on a regular basis.

<sup>1</sup> The Hong Kong office areas of the Group include the Headquarters Office in Central, Hong Kong, and the Tsim Sha Tsui office, with a total area of 4,668.7 m<sup>2</sup> and 255 employees in aggregate.

<sup>2</sup> Fuel consumption was generated from: 6 official vehicles over which the Group has operational control in the Hong Kong office areas during the Reporting Period.

<sup>3</sup> Due to the centralised water supply in the building, this part was calculated based on the average water consumption and daily water consumption of each floor provided by the building management office.

## Corporate Social Responsibility Report

### Hong Kong office areas – Waste generation

| Class                         | The amount generated in 2019 | The intensity generated in 2019 |
|-------------------------------|------------------------------|---------------------------------|
| Hazardous waste               |                              |                                 |
| Waste fluorescent light tubes | 45 tubes                     | 0.0086 tube/m <sup>2</sup>      |
| Waste toner cartridges        | 166 cartridges               | 0.65 cartridge/person           |
| Non-hazardous waste           |                              |                                 |
| Waste paper <sup>4</sup>      | 2166.73 kg                   | 8.50 kg/person                  |
| Computer cases                | 66 cases                     | 0.26 case/person                |

#### 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.

In addition, we proactively advocate the practice of green procurement, and select electrical appliances with Grade 1 Energy Labels, with the aim of improving energy efficiency. During the Reporting Period, starting from the ordinary working scope of our staff, we implemented environmental procedures step by step, and arranged for designated staff to inspect compliance by our workers on a regular basis. Thanks to the strict implementation of a series of measures, overtime air-conditioning charges of the Hong Kong Headquarters Office were reduced by 20% compared to last year.

<sup>4</sup> The amount of the waste paper was estimated based on 30% of our paper consumption (A3 and A4).

## Hong Kong office areas – Greenhouse gas emissions

| Greenhouse gas emissions scope                             | Volume of emissions in 2019 |  | Unit                 |
|--|-----------------------------|--|----------------------|
| Scope 1 <sup>5</sup> :                                     | 36.11                       |  | tonnes               |
| Scope 2 <sup>6</sup> :                                     | 680.14                      |  | tonnes               |
| Scope 3 <sup>7</sup> :                                     | 135.08                      |  | tonnes               |
| Total volume of greenhouse gas emissions (Scopes 1, 2 & 3) | 851.33                      |  | tonnes               |
| Intensity of greenhouse gas emissions (Scopes 1, 2 & 3)    | 0.18                        |  | tonne/m <sup>2</sup> |
|  | 3.34                        |  | tonnes/person        |

Greenhouse gas emissions of the Hong Kong office areas 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 of Hong Kong. The identified sources of air pollutant emissions are mainly from the 6 official vehicles over which the Group has operational control in the Hong Kong office areas.

<sup>5</sup> The computation method and relevant emission factors of greenhouse gas emissions (Scope 1) are based on: the Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong (2010 Edition) jointly issued by the Electrical and Mechanical Services Department and the Environmental Protection Department.

<sup>6</sup> The computation method and relevant emission factors of greenhouse gas emissions (Scope 2) are based on: the "Carbon Emissions Calculator" by HK Electric Investments Limited and the 2018 Sustainability Report – Data and Downloads by CLP Power Hong Kong Limited.

<sup>7</sup> The computation method and relevant emission factors of greenhouse gas emissions (Scope 3) are based on: Appendix 2: Reporting Guidance on Environmental KPIs of the Stock Exchange, and the Carbon Emissions Calculator of the International Civil Aviation Organisation (<https://www.icao.int/environmental-protection/CarbonOffset/Pages/default.aspx>).

## Corporate Social Responsibility Report

### Hong Kong office areas – Air pollutant emissions<sup>8</sup>

| Types of air pollutant emissions | Volume of emissions in 2019 | Unit |
|----------------------------------|-----------------------------|------|
| NOx emissions                    | 5.46                        | kg   |
| SOx emissions                    | 0.20                        | kg   |
| CO emissions                     | 49.08                       | kg   |
| PM2.5 emissions                  | 0.12                        | kg   |

During the Reporting Period, the Group standardised our work on environmental data collection, and for the first time produced and disclosed statistics in relation to all aspects of the Hong Kong office areas. In the future, based on the figures of this Reporting Period, we will compare yearly figures, so as to enhance environmental performance disclosure.

### Green Finance

As a responsible financial services institution, while attaching great emphasis to the impacts on the environment imposed by its business operations, the Group also focuses on green finance services due to its business nature, proactively supports environmental protection projects, and combines green investment with sustainable development needs, so as to boost the construction of ecological civilisation.

### **Negative Screening Strategy**

In conducting project assessments, we, on principle, eliminate projects in industries involving high pollution, high energy consumption, military, pornographic and gambling businesses. For investment projects with the same return rate, we give priority to green projects. In addition, at the post-investment management stage, we keep a close watch over the counterparty for any negative media reports. Upon occurrence of an event on the part of the counterparty with a significant negative social impact, we will issue a risk alert to the front office business department and procure the business department to adopt an appropriate response strategy.

### **Green Bonds**

On 17 April 2019, acting as a joint global coordinator, a joint bookrunner and a joint lead manager, we again assisted Modern Land to issue green bonds with a principal amount of US\$200 million, which helped to expand green financing channels and promoted the sustainable development of green technology real estate business. The issuance of such green bonds is aimed at funding new and existing projects and businesses with environmental benefits that align with the Green Bond Principles, which was classified as refinancing of qualified green assets. On 28 November 2019, acting as a joint bookrunner and a joint lead manager, we assisted Jiangxi Provincial Water Conservancy Investment Group Corp. (江西省水利投資集團有限公司) to issue three-year senior unsecured green bonds with a principal amount of US\$300 million. The proceeds of the green bonds will mainly be used for the infrastructure construction of Jiangxi water conservancy, rectification for ecological environment and development of clean energy. The bonds became the first overseas green bonds issued not only in Jiangxi, but also in the national pilot green finance zones. Our continuous efforts in assisting Modern Land and Jiangxi Provincial Water Conservancy Investment Group Corp. to issue green bonds also demonstrate our commitment to green finance, helping to promote the development of green finance.

<sup>8</sup> The computation method and relevant emission factors of the air pollutant emissions are based on: the EMEP/EEA Air Pollutant Emission Inventory Guidebook – 2016 issued by the European Environment Agency.

CARE FOR THE COMMUNITY, EMBRACE HIGH-VALUE DEDICATION

Giving back to society historically remains one of our primary means to fulfill our corporate social responsibility. While pursuing business development, the Group actively organised and its employees participated in a variety of public welfare activities, with the aim of facilitating community-friendly development. We have worked with the Hong Kong Community Chest and made donations for many consecutive years, and participated in various large-scale charity fundraising events such as “Walk for a Million” to support communities in need. In addition, we actively supported the efforts by all walks of life in the promotion and education of ecological environment protection, sponsored HK\$100,000 to Friends of the Earth (HK) and jointly promoted the “Tree Planting Challenge 2019” and other environmental protection activities.



Tree Planting Challenge 2019 Certificate



On 28 April 2019, 39 employees of the Group participated in the tree planting and hiking activity “Friends of the Earth (HK) – Tree Planting Challenge 2019”. As one of the participating organisations, we jointly planted approximately 1,500 native tree seedlings during the activity, and called for employees to care for trees and join hands to combat climate change.



## Corporate Social Responsibility Report



On 6 January 2019, we organised our employees' participation in "The Community Chest 50th Anniversary Walk for a Million (Central-Wanchai Bypass)" charity walk, and donated HK\$15,000 to support family and child welfare services of the Community Chest.



On 1 June 2019, three employee representatives of the Group participated in the "Everbright Spartan Corporate Championship 2019". They demonstrated strong teamwork spirit in a series of obstacle course races, showing great physical strength, willpower and endurance and also making contributions to charity.

In addition, we made donations to "ORBIS", one of the charity recipients of the event, to support those suffering from preventable blindness.

## APPENDIX: HKEX “ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE” CONTENT INDEX

| Aspect           | Index                 | Content Index  | Relevant Sections/<br>Notes                        |
|------------------|-----------------------|--|--|
| A. Environmental |                       |  |  |
| A1:<br>Emissions | General<br>Disclosure | Information on:<br>(a) the policies; and<br>(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 Disposal and Recycling |
|                  | 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 Disposal and Recycling                       |
|                  | A1.4                  | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)  | Waste Disposal and Recycling                       |
|                  | A1.5                  | Description of measures to mitigate emissions and results achieved   | Green Office Measures, Focus on Air Quality        |
|                  | A1.6                  | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved  | Waste Disposal and Recycling                       |

## Corporate Social Responsibility Report

| Aspect                                    | Index              | Content Index   | Relevant Sections/<br>Notes  |
|---|--------------------|---|--|
| 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                                       |
| A3: The Environment and Natural Resources | General Disclosure | Policies on minimising 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, Care for the Community, Embrace High-value Dedication |

| Aspect                       | Index              | Content Index  | Relevant Sections/<br>Notes              |
|------------------------------|--------------------|--|--|
| <b>B. Social</b>             |                    |  |  |
| B1: Employment               | General Disclosure | Information on:<br>(a) the policies; and<br>(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 to Build an Elite Team |
|                              | B1.1               | Total workforce by gender, employment type, age group and geographical region  | Gathering Talents to Build an Elite Team |
|                              | B1.2               | Employee turnover rate by gender, age group and geographical region  | Consideration for Future Disclosure      |
| B2: Health and Safety        | General Disclosure | Information on:<br>(a) the policies; and<br>(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   | Occupational Health and Safety           |
|                              | B2.1               | Number and rate of work-related fatalities   | Occupational Health and Safety           |
|                              | B2.2               | Lost days due to work injury   | Occupational Health and Safety           |
|                              | B2.3               | Description of occupational health and safety measures adopted, how they are implemented and monitored   | Occupational Health and Safety           |
| B3: Development and Training | General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work and description of training activities  | Employee Training and Development        |
|                              | B3.1               | The percentage of employees trained by gender and employee category (e.g. senior management, middle management)  | Employee Training and Development        |
|                              | B3.2               | The average training hours completed per employee by gender and employee category  | Employee Training and Development        |

## Corporate Social Responsibility Report

| Aspect                      | Index              | Content Index  | Relevant Sections/<br>Notes   |
|-----------------------------|--------------------|--|---|
| B4: Labour Standards        | General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour  | Gathering Talents to Build an Elite Team  |
|                             | B4.1               | Description of measures to review employment practices to avoid child and forced labour  | Gathering Talents to Build an Elite Team  |
|                             | B4.2               | Description of steps taken to eliminate such practices when discovered   | Gathering Talents to Build an Elite Team  |
| 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:<br>(a) the policies; and<br>(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, Maintain and Protect Intellectual Property Rights, Regulate Marketing Management |
|                             | 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/<br>Notes  |
|--------------------------|--------------------|---|--|
| B7: Anti-corruption      | General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering | Anti-Money Laundering and Counter-Terrorist Financing, 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-Money Laundering and Counter-Terrorist Financing, Anti-corruption and Bribery |
|                          | B7.2               | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored   | Anti-Money Laundering and Counter-Terrorist Financing, 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, Embrace High-value Dedication                              |
|                          | B8.1               | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)  | Care for the Community, Embrace High-value Dedication                              |
|                          | B8.2               | Resources contributed (e.g. money or time) to the focus area  | Care for the Community, Embrace High-value Dedication                              |

# Awards



Bloomberg, Chinese Asset Management Association of Hong Kong



FinanceAsia



Zhitong Finance, RoyalFlush Information



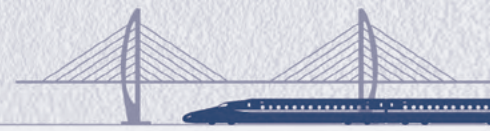
Gelonghui



Hong Kong Commercial Daily, Economic Herald, Federation Economic and Commerce of Hong Kong and China Enterprise Reputation & Credibility Association (Overseas)



China Business Network



# Independent Auditor's Report



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 94 to 223, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- 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 2019, 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 ("HKSA") 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

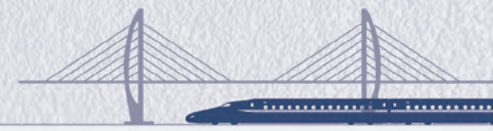
We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

### 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 and financial assets at fair value through other comprehensive income (debt investments)
- Valuation assessment of Level 3 financial instruments



# Independent Auditor's Report (Continued)

## KEY AUDIT MATTERS (continued)

### Key Audit Matter

#### **Impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments)**

Refer to Note 23 and 27 to the consolidated financial statements.

As at 31 December 2019, the margin loans to customers amounted to HK\$2,679,240 thousand and financial assets at fair value through other comprehensive income (debt investments) amounted to HK\$3,790,577 thousand in total, represented 35% of the Group's total assets. The impairment allowance on margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) for the year ended 31 December 2019 amounted to HK\$95,684 thousand and HK\$50,026 thousand, respectively.

The Group's impairment losses are calculated based on a three-stage expected credit loss ("ECL") model, which involves significant management judgments 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 the ECL.

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.

### How our audit addressed the Key Audit Matter

Our audit procedures in relation to the impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) included:

- Understanding and testing the key management controls over the approval, recording and monitoring of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments);
- Understanding and testing the controls over ECL model updates and back-testing, including review and approval of ECL calculation;
- Evaluating and assessing the appropriateness of the ECL methodology applied by the management, including input parameters, forward-looking information and staging determination;
- 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 for margin loans held 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;



## Independent Auditor's Report (Continued)

### KEY AUDIT MATTERS (continued)

#### Key Audit Matter

Impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) was considered a key audit matter due to the size of balance and significant management judgment involved.

#### How our audit addressed the Key Audit Matter

- Assessing the appropriateness of impairment allowance made by the Group on margin loans and fair value through other comprehensive income (debt investments) in stage 3, on a sample basis, by evaluating the reasonableness of the key assumptions and management judgment involved with reference to the economic background, financial information of the borrowers, repayment history and repayment plan of borrowers, if applicable.

Based on the result of our procedures, we considered the management's impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) to be acceptable.

#### Valuation assessment of Level 3 financial instruments

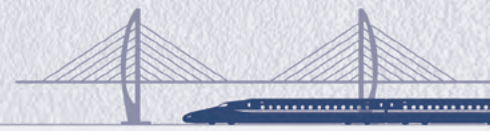
Refer to Note 41.3 to the consolidated financial statements.

As at 31 December 2019, the Level 3 financial instruments were mainly made up of unlisted funds, debt investments and preference shares. The amount consisted of HK\$240,009 thousand financial assets at fair value through other comprehensive income and HK\$3,504,300 thousand financial assets at fair value through profit or loss.

The valuation of the Level 3 financial instruments was based on 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.

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 the competency of the valuation experts used by the management, and testing the appropriateness of models used for the valuation of Level 3 financial instruments, on a sample basis, 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.



## Independent Auditor's Report (Continued)

### KEY AUDIT MATTERS (continued)

#### Key Audit Matter

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

- 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 valuation results at Level 3 financial instruments to be acceptable.

### 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.

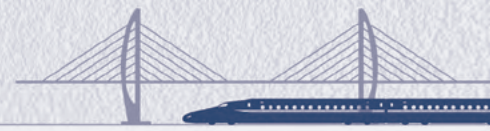
## Independent Auditor's Report (Continued)

### 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 HKSA's 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 HKSA's, 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*

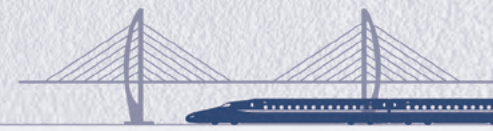
Hong Kong, 25 March 2020

# Consolidated Income Statement

For the year ended 31 December 2019

|   | Notes | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|-------|------------------|------------------|
| Revenue   | 6     | 1,417,007        | 1,397,862        |
| Other income  | 6     | 153,235          | 86,397           |
| <b>Revenue and other income</b>   |       | <b>1,570,242</b> | <b>1,484,259</b> |
| Commission and brokerage expenses   | 7     | (36,613)         | (53,002)         |
| Finance costs   | 8     | (355,598)        | (352,227)        |
| Staff costs   | 9     | (374,378)        | (361,675)        |
| Depreciation  |       | (78,059)         | (8,805)          |
| Other operating expenses  | 11    | (171,329)        | (306,924)        |
| Change in impairment allowance  | 12    | (49,236)         | 20,778           |
| Total expenses  |       | (1,065,213)      | (1,061,855)      |
| Operating profit  |       | 505,029          | 422,404          |
| Share of results of associates  | 20    | 26,571           | (179)            |
| Share of results of joint ventures  | 21    | (91)             | 41               |
| Gain on disposal of an associate  | 20    | –                | 15,380           |
| <b>Profit before taxation</b>   |       | <b>531,509</b>   | <b>437,646</b>   |
| Income tax expense  | 13    | (30,870)         | (26,650)         |
| <b>Profit for the year</b>  |       | <b>500,639</b>   | <b>410,996</b>   |
| <b>Attributable to:</b>   |       |                  |                  |
| Shareholders of the Company   |       | 500,567          | 407,605          |
| Non-controlling interests   |       | 72               | 3,391            |
|   |       | <b>500,639</b>   | <b>410,996</b>   |
| <b>Earnings per share attributable to shareholders of the Company for the year – Basic/Diluted (in HKD per share)</b> | 14    | <b>0.18</b>      | <b>0.15</b>      |





# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

|   | Notes | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|-------|------------------|------------------|
| <b>Profit for the year</b>  |       | <b>500,639</b>   | 410,996          |
| <b>Other comprehensive loss</b>   |       |                  |                  |
| <i>Items that may be reclassified subsequently to profit or loss</i>  |       |                  |                  |
| Changes in fair value of debt investments at fair value through other comprehensive income                                |       | (39,249)         | (126,971)        |
| Amounts reclassified to profit or loss upon disposal of debt investments at fair value through other comprehensive income | 6     | 43               | (1,092)          |
|   |       | (39,206)         | (128,063)        |
| Exchange differences on translation of foreign operations   |       | (8,805)          | (17,472)         |
|   |       | (48,011)         | (145,535)        |
| <i>Items that will not be reclassified subsequently to profit or loss</i>   |       |                  |                  |
| Changes in fair value of equity investments at fair value through other comprehensive income                              |       | 24,157           | (51,899)         |
| <b>Other comprehensive loss, net of tax</b>   |       | <b>(23,854)</b>  | (197,434)        |
| <b>Total comprehensive income</b>   |       | <b>476,785</b>   | 213,562          |
| <b>Attributable to:</b>   |       |                  |                  |
| Shareholders of the Company   |       | 477,077          | 210,171          |
| Non-controlling interests   |       | (292)            | 3,391            |
|   |       | <b>476,785</b>   | 213,562          |

# Consolidated Statement of Financial Position

At 31 December 2019

|   | Notes | 31/12/2019<br>HK\$'000 | 31/12/2018<br>HK\$'000 |
|---|-------|------------------------|------------------------|
| <b>Assets</b>   |       |                        |                        |
| <b>Non-current Assets</b>   |       |                        |                        |
| Property and equipment  | 16    | 34,054                 | 32,129                 |
| Right-of-use assets   | 17    | 73,623                 | –                      |
| Intangible assets   | 18    | 3,196                  | 3,196                  |
| Interest in associates  | 20    | 393,964                | 212,553                |
| Interest in joint ventures  | 21    | 33,274                 | 2,915                  |
| Other assets  | 22    | 24,710                 | 22,867                 |
| Financial assets at fair value through other comprehensive income | 23    | 3,172,930              | 2,503,218              |
| Loans and advances  | 24    | 1,509,172              | 156,136                |
| Receivable from reverse repurchase agreements                     | 28    | 224,987                | 437,511                |
| Deferred tax assets   | 34    | 10,758                 | 18,685                 |
| <b>Total non-current assets</b>                                   |       | <b>5,480,668</b>       | <b>3,389,210</b>       |
| <b>Current Assets</b>   |       |                        |                        |
| Loans and advances  | 24    | 817,323                | 1,269,215              |
| Tax recoverable   |       | –                      | 10,987                 |
| Accounts receivable   | 25    | 511,929                | 641,190                |
| Other receivables and prepayments                                 | 26    | 346,462                | 300,999                |
| Margin loans to customers   | 27    | 2,679,240              | 3,918,371              |
| Receivable from reverse repurchase agreements                     | 28    | 379,596                | 187,670                |
| Amount due from an associate                                      | 29    | 547                    | –                      |
| Amounts due from related parties                                  | 29    | 1,937                  | 3,242                  |
| Financial assets at fair value through other comprehensive income | 23    | 1,457,609              | –                      |
| Financial assets at fair value through profit or loss             | 23    | 6,507,553              | 4,141,644              |
| Derivative financial assets                                       | 23    | 2,224                  | 5,306                  |
| Cash and bank balances  | 30    | 545,141                | 594,005                |
| <b>Total current assets</b>                                       |       | <b>13,249,561</b>      | <b>11,072,629</b>      |
| <b>Total assets</b>   |       | <b>18,730,229</b>      | <b>14,461,839</b>      |
| <b>Equity and liabilities</b>                                     |       |                        |                        |
| <b>Equity attributable to shareholders of the Company</b>         |       |                        |                        |
| Share capital   | 35    | 3,942,216              | 3,942,216              |
| Retained earnings   |       | 2,778,837              | 2,520,038              |
| Revaluation reserve   |       | (167,158)              | (170,708)              |
| Foreign currency translation reserve                              |       | (25,913)               | (17,472)               |
| <b>Total equity attributable to shareholders of the Company</b>   |       | <b>6,527,982</b>       | <b>6,274,074</b>       |
| Non-controlling interests   |       | 99,828                 | 134                    |
| <b>Total equity</b>   |       | <b>6,627,810</b>       | <b>6,274,208</b>       |



# Consolidated Statement of Financial Position (Continued)

At 31 December 2019

|  | Notes | 31/12/2019<br>HK\$'000 | 31/12/2018<br>HK\$'000 |
|--|-------|------------------------|------------------------|
| <b>Liabilities</b>   |       |                        |                        |
| <b>Non-current Liabilities</b>                             |       |                        |                        |
| Borrowings   | 36    | 4,964,230              | 4,988,200              |
| Subordinated loans from the ultimate holding company       | 36    | 1,000,000              | 1,000,000              |
| Obligation under repurchase agreements                     | 36    | 248,915                | 478,146                |
| Lease liabilities  | 17    | 25,019                 | –                      |
| <b>Total non-current liabilities</b>                       |       | <b>6,238,164</b>       | <b>6,466,346</b>       |
| <b>Current Liabilities</b>                                 |       |                        |                        |
| Borrowings   | 36    | 3,216,467              | 763,630                |
| Obligation under repurchase agreements                     | 36    | 1,222,714              | 193,936                |
| Tax payable  |       | 11,388                 | 36,026                 |
| Provision for staff costs                                  |       | 101,524                | 78,516                 |
| Other payables and accrued expenses                        | 31    | 67,213                 | 94,367                 |
| Accounts payable   | 32    | 405,443                | 496,605                |
| Contract liabilities                                       | 33    | 55,479                 | 18,128                 |
| Lease liabilities  | 17    | 51,700                 | –                      |
| Amount due to the ultimate holding company                 | 29    | 5,459                  | 3,745                  |
| Amount due to a fellow subsidiary                          | 29    | 55                     | 83                     |
| Financial liabilities at fair value through profit or loss | 23    | 723,871                | 30,960                 |
| Derivative financial liabilities                           | 23    | 2,942                  | 5,289                  |
| <b>Total current liabilities</b>                           |       | <b>5,864,255</b>       | <b>1,721,285</b>       |
| <b>Total liabilities</b>                                   |       | <b>12,102,419</b>      | <b>8,187,631</b>       |
| <b>Total equity and liabilities</b>                        |       | <b>18,730,229</b>      | <b>14,461,839</b>      |
| <b>Net current assets</b>                                  |       | <b>7,385,306</b>       | <b>9,351,344</b>       |
| <b>Total assets less current liabilities</b>               |       | <b>12,865,974</b>      | <b>12,740,554</b>      |

The consolidated financial statements on pages 94 to 223 were approved and authorised for issue by the Board of Directors on 25 March 2020 and signed on its behalf by:

Tan Yueheng,  
Chairman and Executive Director

Cheng Chuange,  
Deputy Chief Executive Officer &  
Executive Director

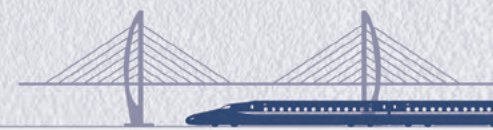
# Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

|   | Attributable to owners of the Company |                               |                                 |  |                   |                                       | Total equity<br>HK\$'000 |
|---|---------------------------------------|-------------------------------|---------------------------------|--|-------------------|---------------------------------------|--------------------------|
|   | Share capital<br>HK\$'000             | Retained earnings<br>HK\$'000 | Revaluation reserve<br>HK\$'000 | Foreign currency translation reserve<br>HK\$'000 | Total<br>HK\$'000 | Non-controlling interests<br>HK\$'000 |                          |
| At 31 December 2018                               | 3,942,216                             | 2,520,038                     | (170,708)                       | (17,472)   | 6,274,074         | 134                                   | 6,274,208                |
| Impact on initial application of HKFRS 16         | -                                     | (4,418)                       | -                               | -  | (4,418)           | -                                     | (4,418)                  |
| Adjusted balance at 1 January 2019                | 3,942,216                             | 2,515,620                     | (170,708)                       | (17,472)   | 6,269,656         | 134                                   | 6,269,790                |
| Profit for the year                               | -                                     | 500,567                       | -                               | -  | 500,567           | 72                                    | 500,639                  |
| Other comprehensive (loss)/income for the year    | -                                     | (18,599)*                     | 3,550                           | (8,441)  | (23,490)          | (364)                                 | (23,854)                 |
| Total comprehensive income for the year           | -                                     | 481,968                       | 3,550                           | (8,441)  | 477,077           | (292)                                 | 476,785                  |
| Capital contribution by non-controlling interests | -                                     | -                             | -                               | -  | -                 | 100,119                               | 100,119                  |
| Dividends paid to ordinary shares (Note 15)       | -                                     | (218,751)                     | -                               | -  | (218,751)         | -                                     | (218,751)                |
| Dividends paid by a subsidiary                    | -                                     | -                             | -                               | -  | -                 | (133)                                 | (133)                    |
| At 31 December 2019                               | 3,942,216                             | 2,778,837                     | (167,158)                       | (25,913)   | 6,527,982         | 99,828                                | 6,627,810                |
| 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                |

\* 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 2019

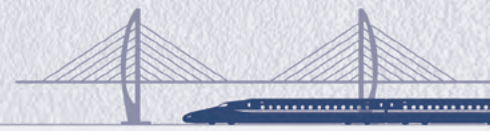
| Notes   | 2019<br>HK\$'000   | 2018<br>HK\$'000 |
|---|--------------------|------------------|
| <b>Operating activities</b>   |                    |                  |
| Profit before taxation  | 531,509            | 437,646          |
| Adjustments for:  |                    |                  |
| Dividend income   | (110,111)          | (139,083)        |
| Interest income from loans or clients   | (362,442)          | (502,933)        |
| Interest income from financial assets   | (392,039)          | (198,273)        |
| Other interest income   | (47,170)           | (36,675)         |
| Finance costs   | 355,598            | 352,227          |
| Depreciation  | 78,059             | 8,805            |
| Loss on disposal of property and equipment  | 3                  | 781              |
| Change in impairment allowance  | 49,236             | (20,778)         |
| Net unrealised gain on financial instruments  | (64,968)           | (4,378)          |
| Net realised (loss)/gain on debt investments at fair value through other comprehensive income | 43                 | (1,092)          |
| Foreign exchange gain   | (49,987)           | (7,264)          |
| Share of results of associates  | (26,571)           | 179              |
| Share of results of joint ventures  | 91                 | (41)             |
| Gain on disposal of an associate  | –                  | (15,380)         |
| <b>Operating cash flows before movements in working capital</b>                               | <b>(38,749)</b>    | <b>(126,259)</b> |
| (Increase)/decrease in other assets   | (1,841)            | 19,175           |
| Increase in financial assets at fair value through profit or loss                             | (2,300,941)        | (405,599)        |
| Increase in financial liabilities at fair value through profit or loss                        | 692,911            | 12,102           |
| Decrease/(increase) in derivative financial assets  | 3,082              | (4,475)          |
| (Decrease)/increase in derivative financial liabilities                                       | (2,346)            | 4,486            |
| Decrease/(increase) in accounts receivable  | 128,909            | (81,905)         |
| Decrease in margin loans to customers   | 1,234,117          | 2,435,779        |
| (Increase)/decrease in loans and advances   | (906,640)          | 50,507           |
| Decrease/(increase) in receivable from reverse repurchase agreements                          | 20,631             | (625,214)        |
| Decrease in amounts due from related parties  | 1,302              | 150              |
| Increase in amounts due from an associate   | (547)              | –                |
| Decrease/(increase) in other receivables and prepayments                                      | 62,243             | (79,594)         |
| (Decrease)/increase in accounts payable   | (91,162)           | 105,937          |
| Increase/(decrease) in amount due to the ultimate holding company                             | 1,713              | (2,335)          |
| (Decrease)/increase in amount due to a fellow subsidiary                                      | (28)               | 83               |
| Increase in provision for staff costs   | 23,008             | 24,806           |
| (Decrease)/increase in other payables and accrued expenses                                    | (27,153)           | 64,174           |
| Decrease in deferred revenue  | –                  | (25,788)         |
| Increase in contract liabilities  | 37,350             | 18,128           |
| <b>Net cash (used in)/generated from operations</b>   | <b>(1,164,141)</b> | <b>1,384,158</b> |



## Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019

|   | Notes     | 2019<br>HK\$'000   | 2018<br>HK\$'000   |
|---|-----------|--------------------|--------------------|
| Income tax paid   |           | (36,940)           | (1,541)            |
| Interest received from loans or clients   |           | 348,506            | 502,287            |
| Other interest income received  |           | 48,735             | 34,509             |
| Interest expenses paid  |           | (352,386)          | (408,427)          |
| <b>Net cash (used in)/generated from operating activities</b>                             |           | <b>(1,156,226)</b> | <b>1,510,986</b>   |
| <b>Investing activities</b>   |           |                    |                    |
| Dividend received   |           | 110,111            | 139,083            |
| Interest income received  |           | 294,855            | 199,841            |
| Purchase of property and equipment  |           | (13,664)           | (20,896)           |
| Purchase of associates  |           | (158,664)          | (213,400)          |
| Proceeds on disposal of an associate  |           | –                  | 111,671            |
| Distribution from associates  |           | –                  | 7,091              |
| Capital injection to joint ventures   |           | (31,703)           | –                  |
| Distribution from joint ventures  |           | 1,694              | –                  |
| Purchase of financial assets at fair value through other comprehensive income             |           | (2,910,823)        | (341,413)          |
| Proceeds on disposal of financial assets at fair value through other comprehensive income |           | 708,899            | 1,213,454          |
| Increase in time deposit with original maturity of more than three months                 |           | (29)               | (27)               |
| Increase in restricted cash   |           | –                  | (2,990)            |
| <b>Net cash (used in)/generated from investing activities</b>                             |           | <b>(1,999,324)</b> | <b>1,092,414</b>   |
| <b>Financing activities</b>   |           |                    |                    |
| Net drawdown/(repayment) of bank loans and other borrowings                               | 45        | 3,228,414          | (3,021,330)        |
| Capital contribution by non-controlling interests   |           | 100,119            | –                  |
| Dividends paid to shareholders  |           | (218,751)          | (218,751)          |
| Dividends from subsidiaries paid to non-controlling interests                             |           | (133)              | (7,334)            |
| Principal elements of lease payments  | 45        | (69,671)           | –                  |
| <b>Net cash generated from/(used in) financing activities</b>                             |           | <b>3,039,978</b>   | <b>(3,247,415)</b> |
| <b>Net decrease in cash and cash equivalents</b>  |           | <b>(115,572)</b>   | <b>(644,015)</b>   |
| <b>Cash and cash equivalents at 1 January</b>   |           | <b>589,348</b>     | <b>1,245,628</b>   |
| Effect of exchange rate changes on cash and cash equivalents                              |           | 66,679             | (12,265)           |
| <b>Cash and cash equivalents at 31 December</b>   | <b>30</b> | <b>540,455</b>     | <b>589,348</b>     |



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

## 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 judgment in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 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*

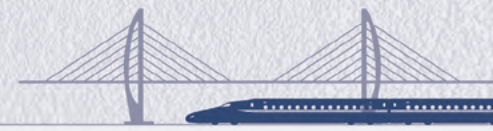
The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- HKFRS 16 Leases
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9
- Annual Improvements to HKFRS Standards 2015 – 2017 Cycle
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group has adopted HKFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019. The impact of the adoption of HKFRS 16 are disclosed in Note 3. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not 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 2019

## 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 remeasurement are recognised in profit or loss.

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.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.2 Subsidiaries (continued)

##### 2.2.1 Consolidation (continued)

###### (a) Business combinations (continued)

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.

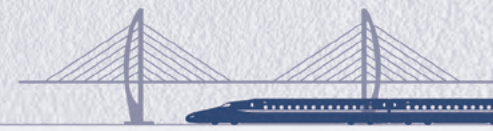
###### (b) Changes in ownership interests in subsidiaries without change of control

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.

###### (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.





# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Subsidiaries (continued)

#### **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.

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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.3 Associates (continued)

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.

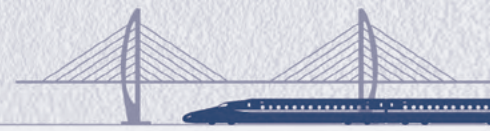
Gains or losses on dilution of equity interest in associates are recognised in the income statement.

#### 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 of 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.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### 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.

The Group has applied the five-step approach as prescribed in HKFRS 15 in assessing the nature of each revenue stream.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 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*

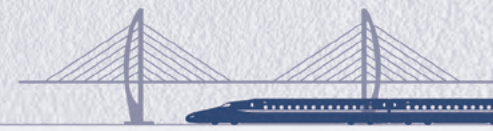
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end 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 2019

## 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 2019

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.8 Borrowing costs

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

#### 2.9 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*

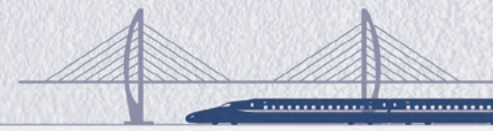
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken 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.

##### (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.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.9 Taxation (continued)

#### **(b) Deferred income tax (continued)**

##### *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.

#### **(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.

### 2.10 Financial instruments

#### **2.10.1 Classification**

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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.10 Financial instruments (continued)

##### 2.10.1 Classification (continued)

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.

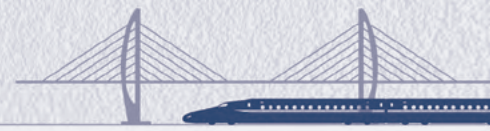
The Group classified its financial liabilities in the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities.

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 assets or financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the following criteria are satisfied.

- the designated eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on different bases;
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel;



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 Financial instruments (continued)

#### 2.10.1 Classification (continued)

- hybrid instruments containing one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear with little or no analysis that the embedded derivative(s) would not be separately recorded;
- hybrid instruments containing embedded derivatives which need to be separated but cannot be separately measured on acquisition date or subsequent reporting date.

#### 2.10.2 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.

#### 2.10.3 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.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.10 Financial instruments (continued)

##### 2.10.3 Measurement (continued)

###### *Debt instruments (continued)*

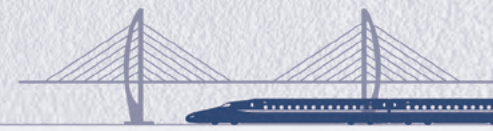
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment 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.

###### *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.





# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.10 Financial instruments (continued)

#### 2.10.3 Measurement (continued)

##### *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.

#### 2.10.4 Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group has eight types of financial assets that are subject to the ECL model:

- loans and advances and loan commitments
- receivable from reverse repurchase agreements
- debt investments at FVOCI
- margin loans to customers
- accounts receivable
- other receivables
- amounts due from an associate and related parties, and
- cash and bank balances

The Group established 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 2019

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.10 Financial instruments (continued)

##### *2.10.4 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 ECL, 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.

###### *Accounts receivable, other receivables and amounts due from an associate and related parties*

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

###### *Debt investments at FVOCI*

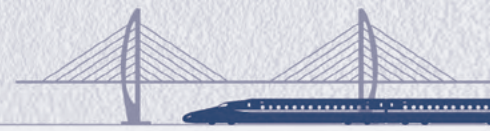
For debt investments at FVOCI that are considered to have low credit risk, and the loss allowance recognised during the period was limited to 12 months expected losses. Management consider "low credit risk" for listed bonds to be an investment grade credit rating with at least one major rating agency. 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. In the event of a significant increase in credit risk, the Group recognises lifetime expected losses based on the significant increase in the likelihood or risk of a default occurring since initial recognition.

###### *Other financial assets at amortised cost*

Other financial assets at amortised cost include loans and advances, receivable from reverse repurchase agreements and bank balances.

###### *Loan commitments*

Loan commitments provided by the Group are measured as at the amount of ECL allowance. The Group has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument. The impairment allowance is recognised as an provision.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.11 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.

### 2.12 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.

### 2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on 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.

### 2.14 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.

### 2.15 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 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.

The Group's contributions to the defined contribution pension plans are expensed as the employees have rendered their services entitling them to the contributions and are reduced by contributions forfeited, if applicable, by those employees who leave the plans prior to vesting fully in the contributions.

#### (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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.16 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 2.18).

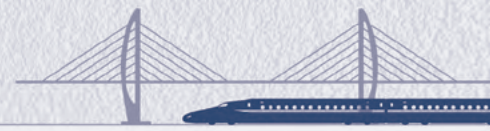
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other income" and "other operating expenses" in the income statement.

#### 2.17 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.





# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.18 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.

### 2.19 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.

### 2.20 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.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.21 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.

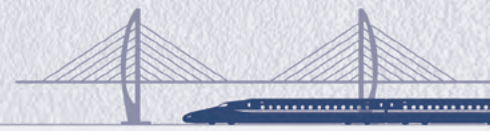
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations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

#### 2.22 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 settling 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 2019

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.23 Leases

From 1 January 2019, the Group has changed its accounting policy for leases where the Group is the lessee.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 39). 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.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 2.23 Leases (continued)

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

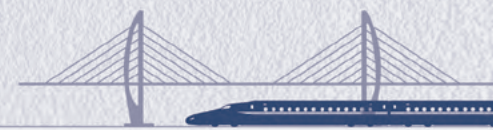
- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

### 3. CHANGES IN ACCOUNTING POLICIES

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.4%. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application. The new accounting policies are disclosed in Note 2.23.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 3. CHANGES IN ACCOUNTING POLICIES (continued)

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

|   | HK\$'000       |
|---|----------------|
| Operating lease commitments disclosed as at 31 December 2018                                | 150,247        |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | (7,031)        |
| Less: short-term lease recognised on a straight-line basis as expenses                      | <u>(26)</u>    |
| Lease liabilities recognised as at 1 January 2019   | <u>143,190</u> |
| Non-current lease liabilities   | 77,207         |
| Current lease liabilities   | <u>65,983</u>  |
|   | <u>143,190</u> |

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 3. CHANGES IN ACCOUNTING POLICIES (continued)

The recognised right-of-use assets relate to the following types of assets:

|                           | 1/1/2019<br>HK\$'000 |
|---------------------------|----------------------|
| Buildings                 | 139,706              |
| Others                    | 163                  |
|                           | <hr/>                |
| Total right-of-use assets | <u>139,869</u>       |

The change in accounting policy affected the following items in the consolidated statement of financial position on 1 January 2019:

|   | HK\$'000         |
|---|------------------|
| Increase in right-of-use assets               | 139,869          |
| Decrease in other receivables and prepayments | (1,097)          |
| Increase in lease liabilities                 | <u>(143,190)</u> |

The net impact on retained earnings on 1 January 2019 was a decrease of HK\$4,418 thousand.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

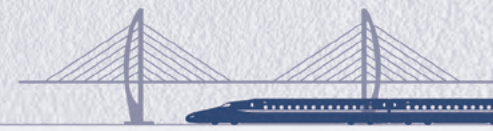
Estimates and judgments are continually evaluated and are based on past experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.





# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

### (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 judgment 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 judgment 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.

### (d) Determination of the lease term

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Most extension options in offices leases have not been included in the lease liability as the Group could replace the assets without significant cost or business disruption.

As at 1 January 2019, potential future cash outflows of HK\$33,337 thousand (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, no lease term was reassessed.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 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, investments in companies and investments 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 external third parties. There was no change in basis during the year ended 31 December 2019.

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 2019

## 5. SEGMENT INFORMATION (continued)

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

|                                      | Year ended 31 December 2019 |  |   |                                 |                                     |                    |                         | Total<br>HK\$'000 |
|--------------------------------------|-----------------------------|--|---|---------------------------------|-------------------------------------|--------------------|-------------------------|-------------------|
|                                      | Brokerage<br>HK\$'000       | Corporate<br>finance and<br>underwriting<br>HK\$'000 | Asset<br>management<br>and advisory<br>HK\$'000 | Margin<br>financing<br>HK\$'000 | Investment<br>and loans<br>HK\$'000 | Others<br>HK\$'000 | Elimination<br>HK\$'000 |                   |
| <b>Total revenue</b>                 |                             |  |   |                                 |                                     |                    |                         |                   |
| Revenue                              |                             |  |   |                                 |                                     |                    |                         |                   |
| Commission and fee income            |                             |  |   |                                 |                                     |                    |                         |                   |
| • External                           | 118,396                     | 120,083  | 125,922   | -                               | -                                   | -                  | -                       | 364,401           |
| • Internal                           | 473                         | -  | 3,732   | -                               | -                                   | -                  | (4,205)                 | -                 |
| Interest income                      |                             |  |   |                                 |                                     |                    |                         |                   |
| • External                           | -                           | -  | -   | 228,648                         | 133,794                             | -                  | -                       | 362,442           |
| • Internal                           | -                           | -  | -   | -                               | 52,185                              | -                  | (52,185)                | -                 |
| Proprietary trading income           |                             |  |   |                                 |                                     |                    |                         |                   |
| • External                           | -                           | -  | -   | -                               | 690,164                             | -                  | -                       | 690,164           |
| • Internal                           | -                           | -  | -   | -                               | -                                   | -                  | -                       | -                 |
| Other income                         | 20,016                      | -  | 1,311   | -                               | 35,193                              | 96,715             | -                       | 153,235           |
|                                      | <u>138,885</u>              | <u>120,083</u>                                       | <u>130,965</u>                                  | <u>228,648</u>                  | <u>911,336</u>                      | <u>96,715</u>      | <u>(56,390)</u>         | <u>1,570,242</u>  |
| Total expenses                       | (189,297)                   | (136,754)  | (110,486)                                       | (142,560)                       | (542,506)                           | -                  | 56,390                  | (1,065,213)       |
| Share of results of associates       | -                           | -  | -   | -                               | 26,571                              | -                  | -                       | 26,571            |
| Share of results of joint ventures   | -                           | -  | -   | -                               | (91)                                | -                  | -                       | (91)              |
| <b>(Loss)/profit before taxation</b> | <u>(50,412)</u>             | <u>(16,671)</u>                                      | <u>20,479</u>                                   | <u>86,088</u>                   | <u>395,310</u>                      | <u>96,715</u>      | <u>-</u>                | <u>531,509</u>    |
| <b>Other disclosures</b>             |                             |  |   |                                 |                                     |                    |                         |                   |
| Depreciation                         | (31,088)                    | (5,607)  | (10,559)  | (12,058)                        | (18,747)                            | -                  | -                       | (78,059)          |
| Change in impairment allowance       | (230)                       | (121)  | -   | (5,013)                         | (43,872)                            | -                  | -                       | (49,236)          |
| Finance costs                        | (357)                       | (101)  | (327)   | (79,020)                        | (327,978)                           | -                  | 52,185                  | (355,598)         |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 5. SEGMENT INFORMATION (continued)

|                                      | Year ended 31 December 2018 |  |   |                                 |                                     |                    |                         | Total<br>HK\$'000 |
|--------------------------------------|-----------------------------|--|---|---------------------------------|-------------------------------------|--------------------|-------------------------|-------------------|
|                                      | Brokerage<br>HK\$'000       | Corporate<br>finance and<br>underwriting<br>HK\$'000 | Asset<br>management<br>and advisory<br>HK\$'000 | Margin<br>financing<br>HK\$'000 | Investment<br>and loans<br>HK\$'000 | Others<br>HK\$'000 | Elimination<br>HK\$'000 |                   |
| <b>Total revenue</b>                 |                             |  |   |                                 |                                     |                    |                         |                   |
| 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            |
|                                      | <u>186,311</u>              | <u>59,869</u>  | <u>89,132</u>                                   | <u>417,485</u>                  | <u>723,885</u>                      | <u>47,674</u>      | <u>(40,097)</u>         | <u>1,484,259</u>  |
| 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            |
| <b>(Loss)/profit before taxation</b> | <u>(32,844)</u>             | <u>(65,729)</u>                                      | <u>(8,795)</u>                                  | <u>224,594</u>                  | <u>272,746</u>                      | <u>47,674</u>      | <u>-</u>                | <u>437,646</u>    |
| <b>Other disclosures</b>             |                             |  |   |                                 |                                     |                    |                         |                   |
| 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)         |

The geographical information of revenue is disclosed as follows:

|   | 2019<br>HK\$'000        | 2018<br>HK\$'000 |
|---|-------------------------|------------------|
| Total revenue from external customers by location of operations |                         |                  |
| – Hong Kong   | <b>1,493,972</b>        | 1,468,845        |
| – Mainland China  | <b>76,270</b>           | 15,414           |
|   | <u><b>1,570,242</b></u> | <u>1,484,259</u> |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 6. REVENUE AND OTHER INCOME

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| <b>REVENUE</b>  |                  |                  |
| COMMISSION AND FEE INCOME   |                  |                  |
| Brokerage commission  | <b>118,396</b>   | 165,551          |
| Corporate finance and underwriting fee  | <b>120,083</b>   | 59,869           |
| Asset management and advisory income  | <b>125,922</b>   | 82,054           |
|   | <b>364,401</b>   | 307,474          |
| INTEREST INCOME   |                  |                  |
| Interest income from margin financing   | <b>228,648</b>   | 417,485          |
| Interest income from loans and advances   | <b>92,722</b>    | 79,602           |
| Interest income from receivable from reverse repurchase agreements                        | <b>41,072</b>    | 5,846            |
|   | <b>362,442</b>   | 502,933          |
| PROPRIETARY TRADING INCOME  |                  |                  |
| Unrealised gain on financial instruments  | <b>64,968</b>    | 4,378            |
| Realised gain on financial instruments at fair value through profit or loss               | <b>123,168</b>   | 241,667          |
| Realised (loss)/gain on debt investments at fair value through other comprehensive income | <b>(43)</b>      | 1,092            |
| Realised gain/(loss) on derivative financial instruments                                  | <b>3,051</b>     | (456)            |
| Fair value changes from financial liabilities at fair value through profit or loss        | <b>(3,130)</b>   | 3,418            |
| Dividend income from  |                  |                  |
| – Financial assets at fair value through profit or loss                                   | <b>37,788</b>    | 75,176           |
| – Financial assets at fair value through other comprehensive income                       | <b>72,323</b>    | 63,907           |
| Interest income from  |                  |                  |
| – Financial assets at fair value through profit or loss                                   | <b>209,329</b>   | 70,008           |
| – Financial assets at fair value through other comprehensive income                       | <b>182,710</b>   | 128,265          |
|   | <b>690,164</b>   | 587,455          |
|   | <b>1,417,007</b> | 1,397,862        |



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 6. REVENUE AND OTHER INCOME (continued)

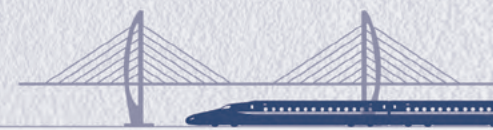
|                       | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|-----------------------|------------------|------------------|
| <b>OTHER INCOME</b>   |                  |                  |
| Handling fees         | 18,629           | 20,841           |
| Other interest income | 47,170           | 36,675           |
| Exchange gains        | 49,987           | 7,264            |
| Others                | 37,449           | 21,617           |
|                       | <u>153,235</u>   | <u>86,397</u>    |

## 7. COMMISSION AND BROKERAGE EXPENSES

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Commission rebate to account executives                        | 32,810           | 48,114           |
| Commission rebate to the ultimate holding company<br>(Note 37) | 2,022            | 3,390            |
| Commission rebate to a fellow subsidiary (Note 37)             | 1,709            | 1,413            |
| Others   | 72               | 85               |
|  | <u>36,613</u>    | <u>53,002</u>    |

## 8. FINANCE COSTS

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| Interest expenses on subordinated loans from the ultimate holding company (Note 37) | 33,680           | 28,555           |
| Interest expenses on bank loans from the ultimate holding company (Note 37)         | 19,816           | 49,066           |
| Interest expenses on bank loans and overdraft from other financial institutions     | 227,135          | 197,112          |
| Interest expenses on a total return swap arrangement with external third parties    | –                | 57,730           |
| Interest expenses on obligation under repurchase agreements                         | 49,464           | 5,194            |
| Interest expenses on lease liabilities  | 3,213            | –                |
| Others  | 126              | 26               |
|   | <u>333,434</u>   | <u>337,683</u>   |
| Other borrowing costs to the ultimate holding company (Note 37)                     | 1,750            | 437              |
| Other borrowing costs to other financial institutions                               | 20,414           | 14,107           |
|   | <u>355,598</u>   | <u>352,227</u>   |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 9. STAFF COSTS

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Salaries, bonus, staff allowances          | 351,611          | 338,642          |
| Director's fees                            | 1,080            | 1,080            |
| Contributions to retirement benefit scheme | 21,687           | 21,953           |
|  | <b>374,378</b>   | <b>361,675</b>   |

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.

The amount of forfeited contributions utilised in the course of the year ended 31 December 2019 was HK\$2,410 thousand (2018: HK\$3,487 thousand).

### 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 2019 and 2018.

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

### Number of individuals

|                              | 2019     | 2018     |
|------------------------------|----------|----------|
| <b>Individuals</b>           |          |          |
| Emolument bands (HK\$)       |          |          |
| 4,500,001 – 5,000,000        | –        | 1        |
| 5,000,001 – 5,500,000        | 1        | –        |
| 5,500,001 – 6,000,000        | 2        | 1        |
| 6,000,001 – 6,500,000        | 1        | –        |
| 6,500,001 – 7,000,000        | –        | 1        |
| 7,000,001 – 7,500,000        | –        | –        |
| 7,500,001 – 8,000,000        | –        | 1        |
| 12,500,001 – 13,000,000      | –        | –        |
| <b>Number of individuals</b> | <b>4</b> | <b>4</b> |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 9. STAFF COSTS (continued)

Details of the remuneration payable to the remaining four individuals for both years ended 31 December 2019 and 2018, whose emoluments were highest in the Group are as follows:

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| Basic salaries, housing allowances, other allowances and benefits in kind | 12,192           | 11,440           |
| Contributions to retirement benefit scheme                                | 1,200            | 1,014            |
| Bonus   | 9,910            | 12,860           |
|   | <u>23,302</u>    | <u>25,314</u>    |

## 10. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

## Directors' and chief executives' emoluments

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

*For the year ended 31 December 2019*

| Name                                | Fees<br>HK\$'000 | Salaries, housing,<br>other allowances<br>and benefits in kind<br>HK\$'000 | Discretionary<br>bonus<br>HK\$'000 | Employer's<br>contribution to<br>a retirement<br>benefit scheme<br>HK\$'000 | Total<br>HK\$'000 |
|-------------------------------------|------------------|--|------------------------------------|---|-------------------|
| Tan Yueheng                         | -                | 3,566  | 1,355                              | 495   | 5,416             |
| Li Ying <sup>(1)</sup>              | -                | 2,725  | -                                  | 17  | 2,742             |
| Cheng Chuange                       | -                | 2,236  | 2,064                              | 436   | 4,736             |
| Wang Yijun                          | -                | -  | -                                  | -   | -                 |
| Lin Zhihong                         | -                | -  | -                                  | -   | -                 |
| Shou Fugang                         | -                | -  | -                                  | -   | -                 |
| Xi Xuanhua                          | -                | 3,000  | 2,450                              | 436   | 5,886             |
| Su Fen <sup>(2)</sup>               | -                | 1,402  | 2,180                              | 18  | 3,600             |
| Independent Non-executive Director: |                  |  |                                    |   |                   |
| Tse Yung Hoi                        | 360              | -  | -                                  | -   | 360               |
| Ma Ning                             | 360              | -  | -                                  | -   | 360               |
| Lin Zhijun                          | 360              | -  | -                                  | -   | 360               |
| Total                               | <u>1,080</u>     | <u>12,929</u>  | <u>8,049</u>                       | <u>1,402</u>  | <u>23,460</u>     |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 10. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES (continued)

Directors' and chief executives' emoluments (continued)

*For the year ended 31 December 2018*

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

(1) Li Ying resigned with effect from 6 November 2019.

(2) Su Fen was appointed as Deputy Chief Executive Officer with effect from 11 July 2018.

No directors and chief executives waived or agreed to waive any emoluments during the years ended 31 December 2019 and 2018. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors and chief executives during the years ended 31 December 2019 and 2018.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 11. OTHER OPERATING EXPENSES

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Auditor's remuneration                     | 4,132            | 3,682            |
| Bank charges                               | 684              | 624              |
| Business development expenses              | 6,731            | 6,104            |
| Business tax expenses                      | 420              | 162              |
| Compensation to a client                   | –                | 17,574           |
| Exchange and clearing fees                 | 19,835           | 24,592           |
| Investing administrative expenses          |                  |                  |
| – management fee expenses                  | 19,561           | 22,846           |
| – performance fee expenses                 | –                | 47,555           |
| IT expenses                                | 41,979           | 36,020           |
| Legal and professional fee                 | 16,701           | 23,324           |
| Loss on disposal of property and equipment | 3                | 781              |
| Motor and travelling expenses              | 12,389           | 11,776           |
| Office and maintenance expenses            | 35,046           | 32,574           |
| Operating lease charges                    | 3,047            | 64,572           |
| Recruitment expenses                       | 3,403            | 6,028            |
| Others                                     | 7,398            | 8,710            |
|  | <u>171,329</u>   | <u>306,924</u>   |

## 12. CHANGE IN IMPAIRMENT ALLOWANCE

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| <b>Change in impairment allowance on:</b>               |                  |                  |
| Receivable from reverse repurchase agreements (Note 28) | 33               | (33)             |
| Accounts receivable (Note 25)                           | (351)            | 7,434            |
| Margin loans to customers (Note 27)                     | (5,013)          | 8,773            |
| Loans and advances (Note 24)                            | (5,495)          | 3,488            |
| Debt investments at FVOCI                               | (37,655)         | 1,002            |
| Other receivables (Note 26)                             | (752)            | 113              |
| Amounts due from related parties                        | (3)              | 1                |
|   | <u>(49,236)</u>  | <u>20,778</u>    |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 13. INCOME TAX EXPENSE

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| Current tax:                                      |                  |                  |
| Hong Kong Profits Tax                             | 18,545           | 30,142           |
| PRC Enterprise Income Tax                         | 15,030           | 1,831            |
| Over provision in prior years                     | (10,336)         | –                |
| Total current tax                                 | 23,239           | 31,973           |
| Deferred tax:                                     |                  |                  |
| Provision for/(reversal of) temporary differences | 7,631            | (5,323)          |
| Income tax expense recognised in profit or loss   | 30,870           | 26,650           |

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%.

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:

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Profit before taxation   | 531,509          | 437,646          |
| Tax at the income tax rate of 16.5%                                | 87,699           | 72,212           |
| Tax effect of expenses not deductible for tax purpose              | 6,973            | 2,685            |
| Tax effect of income not taxable for tax purpose                   | (68,310)         | (53,053)         |
| Tax effect of tax losses not recognised                            | 14,176           | 24,851           |
| Tax effect of utilisation of tax losses previously not recognised  | (15,427)         | (16,253)         |
| Over provision in prior years                                      | (2,705)          | (5,323)          |
| Effect of different tax rates of subsidiaries operating in the PRC | 5,197            | 1,166            |
| Others   | 3,267            | 365              |
| Tax charge for the year  | 30,870           | 26,650           |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 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.

|   | 2019             | 2018             |
|---|------------------|------------------|
| Profit attributable to shareholders of the Company<br>(in HK\$'000)     | <b>500,567</b>   | 407,605          |
| Weighted average number of ordinary shares in issue<br>(in '000 shares) | <b>2,734,392</b> | <u>2,734,392</u> |
| Earnings per share (in HKD per share)                                   | <b>0.18</b>      | <u>0.15</u>      |

#### (b) Diluted

For the years ended 31 December 2019 and 2018, there were no potential diluted ordinary shares. The diluted earnings per share were the same as the basic earnings per share.

### 15. DIVIDENDS

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Final dividend proposed after the end of the reporting period of HK\$0.09 per ordinary share (2018: HK\$0.08 per ordinary share) | <b>246,095</b>   | <u>218,751</u>   |

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 2019

## 16. PROPERTY AND EQUIPMENT

|   | Leasehold<br>improvements<br>HK\$'000 | Furniture<br>and fixtures<br>HK\$'000 | Motor<br>vehicles<br>HK\$'000 | Office<br>equipment<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------------------------|---------------------------------------|-------------------------------|---------------------------------|-------------------|
| <b>Cost</b>                               |                                       |                                       |                               |                                 |                   |
| At 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<br>and 1 January 2019 | 38,190                                | 4,351                                 | 9,605                         | 86,580                          | 138,726           |
| Additions                                 | 195                                   | 520                                   | 423                           | 12,526                          | 13,664            |
| Disposals                                 | –                                     | (540)                                 | (430)                         | (10,120)                        | (11,090)          |
| Exchange adjustments                      | (215)                                 | (7)                                   | (6)                           | (30)                            | (258)             |
| At 31 December 2019                       | 38,170                                | 4,324                                 | 9,592                         | 88,956                          | 141,042           |
| <b>Accumulated<br/>depreciation</b>       |                                       |                                       |                               |                                 |                   |
| At 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<br>and 1 January 2019 | 31,294                                | 3,698                                 | 6,933                         | 64,672                          | 106,597           |
| Charge for the year                       | 2,154                                 | 304                                   | 664                           | 8,580                           | 11,702            |
| Disposals                                 | –                                     | (537)                                 | (430)                         | (10,120)                        | (11,087)          |
| Exchange adjustments                      | (186)                                 | (6)                                   | (6)                           | (26)                            | (224)             |
| At 31 December 2019                       | 33,262                                | 3,459                                 | 7,161                         | 63,106                          | 106,988           |
| <b>Carrying values</b>                    |                                       |                                       |                               |                                 |                   |
| At 31 December 2018                       | 6,896                                 | 653                                   | 2,672                         | 21,908                          | 32,129            |
| At 31 December 2019                       | 4,908                                 | 865                                   | 2,431                         | 25,850                          | 34,054            |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 17. LEASES

(a) Amounts recognised in the consolidated statement of financial position:

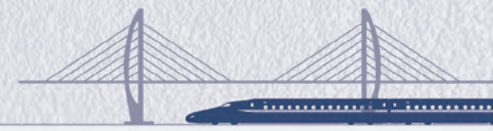
|                            | 2019<br>HK\$'000 | 1 January<br>2019<br>HK\$'000 |
|----------------------------|------------------|-------------------------------|
| <b>Right-of-use assets</b> |                  |                               |
| Buildings                  | 73,401           | 139,706                       |
| Others                     | 222              | 163                           |
|                            | <u>73,623</u>    | <u>139,869</u>                |
| <b>Lease liabilities</b>   |                  |                               |
| Non-current                | 25,019           | 77,207                        |
| Current                    | 51,700           | 65,983                        |
|                            | <u>76,719</u>    | <u>143,190</u>                |

Additions to the right-of-use assets during the 2019 financial year were HK\$208 thousand.

(b) Amounts recognised in the consolidated income statement:

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| <b>Depreciation charge of right-of-use assets</b>  |                  |                  |
| Buildings  | 66,209           | –                |
| Others   | 148              | –                |
|  | <u>66,357</u>    | <u>–</u>         |
| Interest expenses (included in finance cost)   | 3,213            | –                |
| Expenses relating to short-term leases (included in other operating expenses)  | 143              | –                |
| Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in other operating expenses) | 676              | –                |
|  | <u>4,032</u>     | <u>–</u>         |

The total cash outflow for leases in 2019 was HK\$73,703 thousand.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 17. LEASES (continued)

- (c) The Group leases various offices, staff quarters and car parks. Rental contracts are typically made for fixed periods of 3 months to 5 years, but may have extension and termination options. These options are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the lease assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## 18. INTANGIBLE ASSETS

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

|                            | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Trading rights of the SEHK | <u>3,196</u>     | <u>3,196</u>     |

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 2019 and 2018, no impairment loss for intangible assets was recognised, and there were no additions or disposals of intangible assets.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 19. INVESTMENT IN SUBSIDIARIES

As at 31 December 2019, 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 |        | Directly held/ indirectly held |
|---|--|--|---|-----------------------------------|--------|--------------------------------|
|   |  |  |   | 2019                              | 2018   |                                |
| 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                           | HKD100,000,000                              | 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 | 2019: USD43,000,000<br>2018: USD33,000,000  | 100%                              | 100%   | Directly                       |
| 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                         | 2019: RMB36,238,693<br>2018: RMB30,488,856  | 70.73%                            | 66.92% | Directly                       |
| Preferred Investment Management Limited   | British Virgin Islands, Limited Liability Company          | Investment management                      | USD100                                      | 100%                              | 100%   | Directly                       |
| Shanghai Bole Investment Co., Ltd* 上海博樂投資有限公司   | Shanghai, Limited Liability Company                        | Investment trading                         | 2019: RMB120,000,000<br>2018: 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                          | -                                 | 93.64% | Indirectly                     |
| Shanghai Boli Investment Co., Ltd* 上海博禮投資有限公司   | Shanghai, Limited Liability Company                        | Investment trading                         | 2019: RMB105,000,000<br>2018: RMB11,000,000 | 100%                              | 100%   | Indirectly                     |
| BOCOM International Futures Limited**   | Hong Kong, Limited Liability Company                       | Dealing in futures                         | HKD10,000,000                               | 100%                              | 100%   | Indirectly                     |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 19. 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 |      | Directly held/ indirectly held |
|---|--|---|----------------------------------|-----------------------------------|------|--------------------------------|
|   |  |   |                                  | 2019                              | 2018 |                                |
| BOCOM International Equity Investment Management (Shenzhen) Company Limited*<br>交銀國際股權投資管理(深圳)有限公司                              | Shenzhen, Limited Liability Company                        | Investment management                   | USD5,000,000                     | 100%                              | 100% | Indirectly                     |
| BOCOM International Universal Investment Limited  | British Virgin Islands, Limited Liability Company          | Investment management                   | USD1                             | 100%                              | 100% | Directly                       |
| Brilliant Investment Management Limited   | Cayman Islands, Limited Liability Company                  | Investment management                   | USD1                             | 100%                              | 100% | Indirectly                     |
| BOCOM International Balance Investment Limited  | British Virgin Islands, Limited Liability Company          | Investment management                   | USD1                             | 100%                              | -    | Indirectly                     |
| BOCOM International Radiant Investment Limited  | British Virgin Islands, Limited Liability Company          | Investment management                   | USD1                             | 100%                              | -    | Indirectly                     |
| BiMatrix Capital Limited  | Hong Kong, Limited Liability Company                       | Investment management                   | USD1                             | 100%                              | -    | Indirectly                     |
| Shenzhen Boqiang Investment Consulting Co., Ltd.*<br>深圳博強投資諮詢有限公司   | Shenzhen, Limited Liability Company                        | Investment trading and advisory service | -***                             | 100%                              | -    | Indirectly                     |
| Qiniu BOCOM International No. 1 Equity Fund* 七牛 - 交銀國際一號私募股權投資基金  | Shenzhen, Contractual Fund                                 | Investment trading                      | RMB31,093,280                    | 38.71%                            | -    | Indirectly                     |
| Nanjing Boyuan Equity Investment Co., Ltd.* 南京博遠股權投資有限公司  | Nanjing, Limited Liability Company                         | Investment trading                      | RMB10,010,000                    | 100%                              | -    | Indirectly                     |
| BOCOM Science and Technology Innovation Equity Investment Fund (Shanghai) Partnership Enterprise L.P.* 交銀科創股權投資基金(上海)合夥企業(有限合伙) | Shanghai, Limited Partnership                              | Investment trading                      | RMB141,000,000                   | 50%                               | -    | Indirectly                     |

\* 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.

\*\*\* Shenzhen Boqiang Investment Consulting Co., Ltd was newly set up with issued capital of RMB 20,000,000 without fully paid-up as at 31 December 2019.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 19. INVESTMENT IN SUBSIDIARIES (continued)

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

Set out below is summarised financial information of material subsidiaries that have non-controlling interests. The amounts disclosed are before inter-company eliminations.

|   | Qiniu BOCOM<br>International<br>No. 1 Equity Fund<br>2019<br>HK\$'000 | BOCOM Science<br>and Technology<br>Innovation Equity<br>Investment<br>Fund (Shanghai)<br>Partnership<br>Enterprise L.P.<br>2019<br>HK\$'000 |
|---|---|---|
| <b>Current assets</b>                                       | <b>64</b>   | <b>102,433</b>  |
| <b>Current liabilities</b>                                  | <b>(55)</b>   | <b>(797)</b>  |
| <b>Current net assets</b>                                   | <b>9</b>  | <b>101,636</b>  |
| <b>Non-current assets</b>                                   | <b>35,615</b>   | <b>53,186</b>   |
| <b>Non-current liabilities</b>                              | <b>–</b>  | <b>–</b>  |
| <b>Non-current net assets</b>                               | <b>35,615</b>   | <b>53,186</b>   |
| <b>Net assets</b>   | <b>35,624</b>   | <b>154,822</b>  |
| <b>Accumulated non-controlling interests</b>                | <b>22,417</b>   | <b>77,411</b>   |
| <b>Revenue</b>  | <b>–</b>  | <b>–</b>  |
| Profit/(loss) for the year                                  | 1,402   | (1,575)   |
| Other comprehensive income/(loss)                           | –   | –   |
| <b>Total comprehensive income/(loss)</b>                    | <b>1,402</b>  | <b>(1,575)</b>  |
| <b>Profit/(loss) allocated to non-controlling interests</b> | <b>860</b>  | <b>(788)</b>  |
| <b>Dividends paid to non-controlling interests</b>          | <b>–</b>  | <b>–</b>  |
| Cash flows to operating activities                          | (40)  | (778)   |
| Cash flows to investing activities                          | (34,385)  | (53,186)  |
| Cash flows from financing activities                        | 34,489  | 156,397   |
| <b>Net increase in cash and cash equivalents</b>            | <b>64</b>   | <b>102,433</b>  |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 20. INTEREST IN ASSOCIATES

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

|  | 2019<br>HK\$'000      | 2018<br>HK\$'000 |
|--|-----------------------|------------------|
| Unlisted investment at the beginning of the year                   | <b>213,401</b>        | 86,769           |
| Accumulated profit after acquisition                               | <b>152</b>            | 16,945           |
| Addition for the year  | <b>158,664</b>        | 213,400          |
| Transfer/disposal during the year                                  | <b>(59)</b>           | (96,291)         |
| Share of profit/(loss) for the year                                | <b>26,571</b>         | (179)            |
| Distribution for the year  | –                     | (7,091)          |
| Exchange difference arising from translation of foreign operations | <b>(4,765)</b>        | (1,000)          |
| Interest in associates   | <b><u>393,964</u></b> | <u>212,553</u>   |

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.

On 28 March 2019, the Group invested in State Grid Yingda Industry Investment Funds Management Co., Ltd. for a consideration of RMB60,000 thousand and has significant influence over the company. Therefore, it is accounted for as an associate.

On 30 December 2019, the Group invested in Cross-border Interbank Payment System Co., Ltd. for a consideration of RMB80,000 thousand and has significant influence over the company. Therefore, it is accounted for as an associate.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 20. INTEREST IN ASSOCIATES (continued)

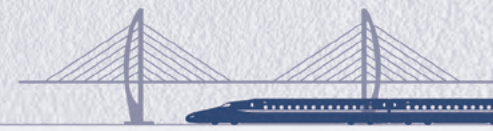
Set out below is the associates of the Group as at 31 December 2019 which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares; the country of incorporation or registration are also its principal place of business.

| Name of entity  | Place of incorporation, operation and kind of legal entity | Principal activities      | Measurement method | Issued and fully paid-up capital           | 2019          | 2018   | Directly held/ Indirectly held |
|---|--|---------------------------|--------------------|--|---------------|--------|--------------------------------|
| BIAM Leveraged Credit Fund SP   | Cayman Islands, Investment fund                            | Investment trading        | Equity             | 2019: USD78,278,459<br>2018: USD70,300,394 | <b>33.12%</b> | 35.60% | Directly                       |
| Jiaxing Henghao Equity Investment L.P.*<br>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                             | <b>9.79%</b>  | 9.79%  | Indirectly                     |
| Jiaxing Hengyu Equity Investment L.P.*<br>嘉興恒昱股權投資基金合夥企業 (有限合夥)                       | Jiaxing, Limited Partnership                               | Private equity investment | Equity             | —**  | <b>10%</b>    | —      | Indirectly                     |
| Jiaxing Hengsheng Equity Investment L.P.*<br>嘉興恒昇股權投資基金合夥企業 (有限合夥)                    | Jiaxing, Limited Partnership                               | Private equity investment | Equity             | —**  | <b>10%</b>    | —      | Indirectly                     |
| Jiaxing Hengxuan Equity Investment L.P.*<br>嘉興恒暄股權投資基金合夥企業 (有限合夥)                     | Jiaxing, Limited Partnership                               | Private equity investment | Equity             | —**  | <b>10%</b>    | —      | Indirectly                     |
| State Grid Yingda Industry Investment Funds Management Co., Ltd.*<br>國網英大產業投資基金管理有限公司 | Beijing, Limited Liability Company                         | Investment management     | Equity             | RMB600,000,000                             | <b>10%</b>    | —      | Indirectly                     |
| Cross-border Interbank Payment System Co., Ltd.*<br>跨境銀行間支付清算 (上海) 有限責任公司             | Shanghai, Limited Liability Company                        | Clearing                  | Equity             | RMB2,380,000,000                           | <b>3.14%</b>  | —      | Indirectly                     |

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

\*\* Each of the associates has an issued capital of RMB10,000,000 without fully paid-up as at 31 December 2019.





# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 20. 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:

### BIAM Leveraged Credit Fund SP

|   | 2019<br>HK\$'000      | 2018<br>HK\$'000 |
|---|-----------------------|------------------|
| <b>Current assets</b>   | <b>23,996</b>         | 21,441           |
| <b>Non-current assets</b>   | <b>861,322</b>        | 528,320          |
| <b>Current liabilities</b>  | <b>184,004</b>        | 12               |
| <b>Non-current liabilities</b>  | <b>–</b>              | –                |
| <b>Net assets</b>   | <b><u>701,314</u></b> | <u>549,749</u>   |
| <b>Net assets attributable to shareholders</b>                              | <b><u>701,314</u></b> | <u>549,749</u>   |
| <b>Reconciled to the Group's interest in the associate:</b>                 |                       |                  |
| Group's effective interest  | <b>33.12%</b>         | 35.60%           |
| <b>Group's share of net assets of the associate</b>                         | <b><u>216,634</u></b> | <u>195,729</u>   |
| <b>Carrying amount</b>  | <b><u>216,634</u></b> | <u>195,729</u>   |
| <b>Revenue</b>  | <b><u>72,171</u></b>  | <u>14,931</u>    |
| <b>Profit after taxation</b>  | <b><u>57,368</u></b>  | <u>2,349</u>     |
| <b>Reconciled to the Group's share of results of the associate:</b>         |                       |                  |
| Group's effective interest  | <b>33.12%</b>         | 35.60%           |
| <b>Group's share of profit after taxation of the associate for the year</b> | <b><u>20,904</u></b>  | <u>354</u>       |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 20. INTEREST IN ASSOCIATES (continued)

|   | State Grid<br>Yingda<br>Industry<br>Investment<br>Funds<br>Management<br>Co., Ltd.<br>2019<br>HK\$'000 | Cross-border<br>Interbank<br>Payment<br>System Co.,<br>Ltd.<br>2019<br>HK\$'000 |
|---|--|---|
| <b>Current assets</b>   | <b>363,683</b>   | <b>2,751,081</b>  |
| <b>Non-current assets</b>   | <b>537,676</b>   | <b>1,693</b>  |
| <b>Current liabilities</b>  | <b>4,285</b>   | <b>24,245</b>   |
| <b>Non-current liabilities</b>  | <b>–</b>   | <b>–</b>  |
| <b>Non-controlling interests</b>  | <b>229,606</b>   | <b>–</b>  |
| <b>Net assets</b>   | <b>667,468</b>   | <b>2,728,529</b>  |
| <b>Net assets attributable to shareholders</b>                              | <b>667,468</b>   | <b>2,728,529</b>  |
| <b>Reconciled to the Group's interest in the associate:</b>                 |  |   |
| Group's effective interest  | 10%  | 3.14%   |
| <b>Group's share of net assets of the associate</b>                         | <b>66,783</b>  | <b>88,736</b>   |
| <b>Carrying amount</b>  | <b>66,783</b>  | <b>88,736</b>   |
| <b>Revenue</b>  | <b>7,993</b>   | <b>39,345</b>   |
| <b>Profit/(loss) after taxation</b>   | <b>1,949</b>   | <b>(28,741)</b>   |
| <b>Reconciled to the Group's share of results of the associate:</b>         |  |   |
| Group's effective interest  | 10%  | 3.14%   |
| <b>Group's share of profit after taxation of the associate for the year</b> | <b>231</b>   | <b>–</b>  |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 20. INTEREST IN ASSOCIATES (continued)

The following table provides aggregate information of associates that are not individually material to the Group:

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Aggregate carrying amounts of individually immaterial associates | <b>21,811</b>    | 16,824           |
| Aggregate amounts of the Group's share of:                       |                  |                  |
| Profit/(loss)  | <b>5,436</b>     | (201)            |
| Other comprehensive income                                       | –                | –                |
| Total comprehensive income                                       | <b>5,436</b>     | (201)            |

## 21. INTEREST IN JOINT VENTURES

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Balance at beginning of year                                       | <b>2,915</b>     | 1,782            |
| Addition for the year  | <b>31,762</b>    | 1,193            |
| Share of (loss)/profit for the year                                | (91)             | 41               |
| Distribution for the year  | <b>(1,694)</b>   | –                |
| Exchange difference arising from translation of foreign operations | <b>382</b>       | (101)            |
| Balance at end of year   | <b>33,274</b>    | 2,915            |

On 30 September 2019, the Group invested in Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund Partnership Enterprise L.P. for a consideration of RMB29,061 thousand.

## Notes to the Consolidated Financial Statements (Continued)

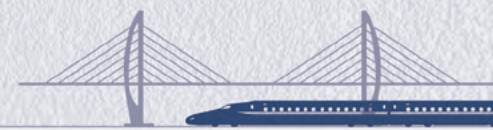
For the year ended 31 December 2019

## 21. INTEREST IN JOINT VENTURES (continued)

Set out below are the joint ventures of the Group as at 31 December 2019, 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 | 2019  | 2018  |
|---|--|--|--------------------|----------------------------------|-------|-------|
| BOCOM NORINCO (Zhuhai) Equity Investment Management Co., Ltd*<br>交銀中兵(珠海)股權投資管理<br>有限公司                                 | Zhuhai, Limited Liability Company                          | Investment management and consultancy services | Equity             | RMB3,000,000                     | -     | 51%   |
| Baise BOCOM Fudi Poverty-relief and Development Fund L.P.*<br>百色交銀福地扶貧開發基金合夥企業<br>(有限合夥)                                | Baise, Limited Partnership                                 | Investment trading                             | Equity             | RMB301,000,000                   | 0.02% | 0.02% |
| Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund Partnership Enterprise L.P.*<br>重慶兩江新區博科股權投資基金合夥<br>企業(有限合夥) | Chong Qing, Limited Partnership                            | Investment trading                             | Equity             | RMB57,000,000                    | 51%   | -     |
| Ningbo Bocom I Equity Investment Limited L.P.*<br>寧波交銀一期股權投資合夥企業<br>(有限合夥)  | Ningbo, Limited Partnership                                | Investment trading                             | Equity             | RMB17,431,300                    | 0.17% | -     |

\* 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 2019

## 21. INTEREST IN JOINT VENTURES (continued)

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

Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund Partnership Enterprise L.P.

|   | 2019<br>HK\$'000     |
|---|----------------------|
| <b>Current assets</b>   |                      |
| Cash and cash equivalents   | 7,409                |
| Other current assets  | 107                  |
| <b>Total current assets</b>   | <u>7,516</u>         |
| <b>Total non-current assets</b>   | <u>55,460</u>        |
| Other payables  | 3                    |
| <b>Total current liabilities</b>  | <u>3</u>             |
| <b>Total non-current liabilities</b>  | <u>–</u>             |
| <b>Net assets</b>   | <u><u>62,973</u></u> |
| <b>Reconciled to the Group's interest in the joint venture:</b>               |                      |
| Group's effective interest  | 51%                  |
| <b>Group's share of net assets of the joint venture</b>                       | <u><u>32,106</u></u> |
| <b>Carrying amount</b>  | <u><u>32,106</u></u> |
| <b>Revenue</b>  | <u><u>–</u></u>      |
| <b>Loss after taxation</b>  | <u><u>(251)</u></u>  |
| <b>Reconciled to the Group's share of results of the joint venture:</b>       |                      |
| Group's effective interest  | 51%                  |
| <b>Group's share of loss after taxation of the joint venture for the year</b> | <u><u>(128)</u></u>  |



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

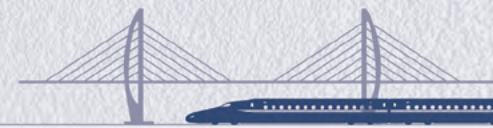
## 21. INTEREST IN JOINT VENTURES (continued)

The following table provides aggregate information of joint ventures that are not individually material to the Group:

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Aggregate carrying amounts of individually immaterial joint ventures | <u>1,168</u>     | <u>2,915</u>     |
| Aggregate amounts of the Group's share of:                           |                  |                  |
| Profit/(loss) after taxation   | -                | -                |
| Other comprehensive income   | -                | -                |
| Total comprehensive income   | <u>-</u>         | <u>-</u>         |

## 22. OTHER ASSETS

|   | 2019<br>HK\$'000     | 2018<br>HK\$'000 |
|---|----------------------|------------------|
| Central Clearing and Settlement System – Guarantee Fund   | <b>11,499</b>        | 12,215           |
| Contribution in cash to Compensation Fund of SEHK   | <b>150</b>           | 150              |
| Contribution in cash to the Fidelity fund of SEHK   | <b>150</b>           | 150              |
| Reserve fund deposits with the Hong Kong Futures Exchange ("HKFE") Clearing Corporation Limited | <b>2,757</b>         | 1,500            |
| Reserve fund deposits with the SEHK Options Clearing House Limited ("SEOCH")                    | <b>9,504</b>         | 8,202            |
| Admission fee paid to the Hong Kong Securities Clearing Company Limited                         | <b>150</b>           | 150              |
| Stamp duty deposit  | <b>500</b>           | 500              |
|   | <u><b>24,710</b></u> | <u>22,867</u>    |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 23. 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

|   | At 31 December 2019 |                     |                     | Total<br>HK\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
|   | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 |                   |
| <b>Designated at fair value through other comprehensive income upon initial recognition</b> |                     |                     |                     |                   |
| Equity securities   | 1,688               | –                   | –                   | 1,688             |
| Preference shares   | 753,725             | –                   | –                   | 753,725           |
| Unlisted equity   | –                   | –                   | 84,549              | 84,549            |
|   | <u>755,413</u>      | <u>–</u>            | <u>84,549</u>       | <u>839,962</u>    |
| <b>Mandatorily measured at fair value through other comprehensive income</b>                |                     |                     |                     |                   |
| Debt investments  | 3,635,117           | –                   | 155,460             | 3,790,577         |
|   | <u>4,390,530</u>    | <u>–</u>            | <u>240,009</u>      | <u>4,630,539</u>  |
| Analysed for reporting purposes:  |                     |                     |                     |                   |
| Non-current   |                     |                     |                     | 3,172,930         |
| Current   |                     |                     |                     | 1,457,609         |
|   |                     |                     |                     | <u>4,630,539</u>  |

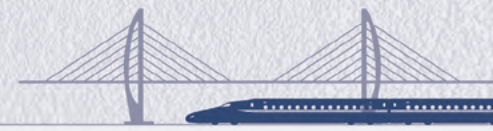
## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 23. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets at fair value through other comprehensive income (continued)

|   | At 31 December 2018 |                     |                     | Total<br>HK\$'000 |
|---|---------------------|---------------------|---------------------|-------------------|
|   | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 |                   |
| <b>Designated at fair value through other comprehensive income upon initial recognition</b> |                     |                     |                     |                   |
| Equity securities   | 2,475               | –                   | –                   | 2,475             |
| Preference shares   | 1,127,504           | –                   | –                   | 1,127,504         |
| Unlisted equity   | –                   | –                   | 66,564              | 66,564            |
|   | <u>1,129,979</u>    | <u>–</u>            | <u>66,564</u>       | <u>1,196,543</u>  |
| <b>Mandatorily measured at fair value through other comprehensive income</b>                |                     |                     |                     |                   |
| Debt investments  | <u>1,247,938</u>    | <u>–</u>            | <u>58,737</u>       | <u>1,306,675</u>  |
|   | <u>2,377,917</u>    | <u>–</u>            | <u>125,301</u>      | <u>2,503,218</u>  |
| Analysed for reporting purposes:  |                     |                     |                     |                   |
| Non-current   |                     |                     |                     | 2,503,218         |
| Current   |                     |                     |                     | –                 |
|   |                     |                     |                     | <u>2,503,218</u>  |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 23. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets at fair value through profit or loss

|   | At 31 December 2019     |                     |                         |                         |
|---|-------------------------|---------------------|-------------------------|-------------------------|
|   | Level 1<br>HK\$'000     | Level 2<br>HK\$'000 | Level 3<br>HK\$'000     | Total<br>HK\$'000       |
| <b>Designated at fair value through profit or loss upon initial recognition</b> |                         |                     |                         |                         |
| Equity securities   | 138,442                 | –                   | –                       | 138,442                 |
| Debt investments  | 2,373                   | –                   | –                       | 2,373                   |
| Preference shares   | –                       | –                   | 1,238,733               | 1,238,733               |
| Unlisted equity   | –                       | –                   | 97,416                  | 97,416                  |
|   | <u>140,815</u>          | <u>–</u>            | <u>1,336,149</u>        | <u>1,476,964</u>        |
| <b>Mandatorily measured at fair value through profit or loss</b>                |                         |                     |                         |                         |
| Equity securities*  | 76,017                  | –                   | –                       | 76,017                  |
| Debt investments  | 2,752,249               | –                   | –                       | 2,752,249               |
| Club debenture  | –                       | –                   | 1,952                   | 1,952                   |
| Funds   | 34,172                  | –                   | –                       | 34,172                  |
| Unlisted funds  | –                       | –                   | 1,616,259               | 1,616,259               |
| Equity-linked loan  | –                       | –                   | 443,061                 | 443,061                 |
| Structured financial product  | –                       | –                   | 106,879                 | 106,879                 |
|   | <u>2,862,438</u>        | <u>–</u>            | <u>2,168,151</u>        | <u>5,030,589</u>        |
|   | <u><b>3,003,253</b></u> | <u><b>–</b></u>     | <u><b>3,504,300</b></u> | <u><b>6,507,553</b></u> |

\* During the Reporting Period, an equity investment was transferred from Level 2 to Level 1 due to expiration of lock-up period.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 23. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets at fair value through profit or loss (continued)

|   | At 31 December 2018   |                      |                         |                         |
|---|-----------------------|----------------------|-------------------------|-------------------------|
|   | Level 1<br>HK\$'000   | Level 2<br>HK\$'000  | Level 3<br>HK\$'000     | Total<br>HK\$'000       |
| <b>Designated at fair value through profit or loss upon initial recognition</b> |                       |                      |                         |                         |
| 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                  |
|   | <u>102,037</u>        | <u>–</u>             | <u>1,115,817</u>        | <u>1,217,854</u>        |
| <b>Mandatorily measured at fair value through profit or loss</b>                |                       |                      |                         |                         |
| 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                 |
|   | <u>528,697</u>        | <u>26,982</u>        | <u>2,368,111</u>        | <u>2,923,790</u>        |
|   | <u><u>630,734</u></u> | <u><u>26,982</u></u> | <u><u>3,483,928</u></u> | <u><u>4,141,644</u></u> |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 23. FINANCIAL ASSETS AND LIABILITIES (continued)

### Derivative financial assets

|                             | At 31 December 2019 |          |          |              |
|-----------------------------|---------------------|----------|----------|--------------|
|                             | Level 1             | Level 2  | Level 3  | Total        |
|                             | HK\$'000            | HK\$'000 | HK\$'000 | HK\$'000     |
| Derivative financial assets | <u>2,224</u>        | <u>–</u> | <u>–</u> | <u>2,224</u> |

|                             | At 31 December 2018 |          |          |              |
|-----------------------------|---------------------|----------|----------|--------------|
|                             | Level 1             | Level 2  | Level 3  | Total        |
|                             | HK\$'000            | HK\$'000 | HK\$'000 | HK\$'000     |
| Derivative financial assets | <u>5,306</u>        | <u>–</u> | <u>–</u> | <u>5,306</u> |

### Financial liabilities at fair value through profit or loss

|   | At 31 December 2019 |                  |                 |                  |
|---|---------------------|------------------|-----------------|------------------|
|   | Level 1             | Level 2          | Level 3         | Total            |
|   | HK\$'000            | HK\$'000         | HK\$'000        | HK\$'000         |
| <b>Designated at fair value through profit or loss upon initial recognition</b> |                     |                  |                 |                  |
| Financial liabilities to the investors of the funds consolidated                | (11,765)            | –                | –               | (11,765)         |
| Notes payable   | –                   | (692,674)        | –               | (692,674)        |
| Structured note payable   | –                   | –                | (19,432)        | (19,432)         |
|   | <u>(11,765)</u>     | <u>(692,674)</u> | <u>(19,432)</u> | <u>(723,871)</u> |

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 23. FINANCIAL ASSETS AND LIABILITIES (continued)

## Derivative financial liabilities

|                                  | At 31 December 2019 |                     |                     |                   |
|----------------------------------|---------------------|---------------------|---------------------|-------------------|
|                                  | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 | Total<br>HK\$'000 |
| Derivative financial liabilities | –                   | (2,942)             | –                   | (2,942)           |

|                                  | At 31 December 2018 |                     |                     |                   |
|----------------------------------|---------------------|---------------------|---------------------|-------------------|
|                                  | Level 1<br>HK\$'000 | Level 2<br>HK\$'000 | Level 3<br>HK\$'000 | Total<br>HK\$'000 |
| Derivative financial liabilities | –                   | (5,289)             | –                   | (5,289)           |

Details of disclosure for fair value measurement are set out in Note 41.

## 24. LOANS AND ADVANCES

|                            | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Gross loans and advances   | 2,334,252        | 1,698,583        |
| Less: impairment allowance | (7,757)          | (273,232)        |
|                            | <u>2,326,495</u> | <u>1,425,351</u> |
| Net loans and advances:    |                  |                  |
| Non-current                | 1,509,172        | 156,136          |
| Current                    | 817,323          | 1,269,215        |
|                            | <u>2,326,495</u> | <u>1,425,351</u> |

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

A credit-impaired loan of HK\$270,970 thousand was written-off in 2019.

There was no past due but not impaired loans and advances as at 31 December 2019 and 31 December 2018.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 25. ACCOUNTS RECEIVABLE

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| Corporate finance and underwriting business | <b>14,498</b>    | 16,819           |
| Dealing in securities and futures business  |                  |                  |
| – Clients                                   | <b>106,816</b>   | 386,917          |
| – Brokers                                   | <b>126,883</b>   | 126,584          |
| – Clearing house                            | <b>265,788</b>   | 112,575          |
|   | <b>499,487</b>   | 626,076          |
| Less: impairment allowance                  | <b>(2,056)</b>   | (1,705)          |
|   | <b>511,929</b>   | 641,190          |

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

|                                      | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| Neither past due nor credit-impaired | <b>510,474</b>   | 640,610          |
| Less than 31 days past due           | <b>22</b>        | 122              |
| 31 – 60 days past due                | <b>2</b>         | 66               |
| 61 – 90 days past due                | <b>–</b>         | 5                |
| Over 90 days past due                | <b>3,487</b>     | 2,092            |
|                                      | <b>3,511</b>     | 2,285            |
| Less: impairment allowance           | <b>(2,056)</b>   | (1,705)          |
|                                      | <b>511,929</b>   | 641,190          |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 25. ACCOUNTS RECEIVABLE (continued)

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.

|  | 2019<br>HK\$'000      | 2018<br>HK\$'000 |
|--|-----------------------|------------------|
| Total market value of securities pledged as collateral in respect of the overdue accounts receivable – clients | <b><u>268,878</u></b> | <u>339,119</u>   |

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.

### 26. OTHER RECEIVABLES AND PREPAYMENTS

|                            | 2019<br>HK\$'000      | 2018<br>HK\$'000 |
|----------------------------|-----------------------|------------------|
| Other receivables          | <b>296,109</b>        | 235,237          |
| Less: impairment allowance | <b>(1,010)</b>        | (258)            |
|                            | <b><u>295,099</u></b> | <u>234,979</u>   |
| Prepayments                | <b>51,363</b>         | 66,020           |
|                            | <b><u>346,462</u></b> | <u>300,999</u>   |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 27. 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.

|                                 | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---------------------------------|------------------|------------------|
| Gross margin loans to customers | 2,774,924        | 4,009,042        |
| Less: impairment allowance      | (95,684)         | (90,671)         |
| Net margin loans to customers   | <u>2,679,240</u> | <u>3,918,371</u> |

The Group applies a “three-stage” model to measure ECL for the margin loans to customers.

|  | 2019<br>HK\$'000  | 2018<br>HK\$'000  |
|--|-------------------|-------------------|
| <b>Margin loans to customers analysed by nature</b>  |                   |                   |
| Institutions   | 1,695,877         | 2,922,792         |
| Individuals  | 983,363           | 995,579           |
|  | <u>2,679,240</u>  | <u>3,918,371</u>  |
| <b>Total market value of securities pledged as collateral<br/>in respect of margin loans to customers analysed by<br/>collateral</b> |                   |                   |
| Stocks   | 11,203,210        | 16,821,961        |
| Debt securities  | 360,298           | 526,995           |
|  | <u>11,563,508</u> | <u>17,348,956</u> |

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 2019

## 28. RECEIVABLE FROM REVERSE REPURCHASE AGREEMENTS

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| Gross receivable from reverse repurchase agreements | <b>604,583</b>   | 625,214          |
| Less: impairment allowance                          | –                | (33)             |
|   | <b>604,583</b>   | <b>625,181</b>   |
| Net receivable from reverse repurchase agreements:  |                  |                  |
| Non-current   | <b>224,987</b>   | 437,511          |
| Current   | <b>379,596</b>   | 187,670          |
|   | <b>604,583</b>   | <b>625,181</b>   |

As at 31 December 2019, the fair value of the collateral allowed for repledging for the outstanding receivable was HK\$1,167,434 thousand (31 December 2018: HK\$1,052,775 thousand).

## 29. AMOUNT(S) DUE FROM/(TO) THE ULTIMATE HOLDING COMPANY/A FELLOW SUBSIDIARY/AN ASSOCIATE/RELATED PARTIES

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

## 30. CASH AND BANK BALANCES

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Current and savings accounts                                   | <b>540,455</b>   | 404,390          |
| Time deposits with original maturity of less than three months | –                | 184,958          |
| Cash and cash equivalents                                      | <b>540,455</b>   | 589,348          |
| Time deposits with original maturity of more than three months | <b>1,696</b>     | 1,667            |
| Restricted cash  | <b>2,990</b>     | 2,990            |
|  | <b>545,141</b>   | <b>594,005</b>   |

Bank balances carry interest at market rates

|                      | 2019              | 2018               |
|----------------------|-------------------|--------------------|
| Interest rates range | <b>0.01%-1.9%</b> | <b>0.01%-2.00%</b> |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 31. OTHER PAYABLES AND ACCRUED EXPENSES

|                  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|------------------|------------------|------------------|
| Other payables   | <b>29,195</b>    | 17,410           |
| Accrued expenses | <b>38,018</b>    | 76,957           |
|                  | <b>67,213</b>    | 94,367           |

## 32. ACCOUNTS PAYABLE

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

|                            | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Clients – trade settlement | <b>367,768</b>   | 322,961          |
| Clearing house             | <b>36,679</b>    | 44,765           |
| Brokers                    | <b>996</b>       | 128,879          |
|                            | <b>405,443</b>   | 496,605          |

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

The settlement terms of accounts payable arising from client businesses are normally two to three days after trade date or at specific terms agreed with clients, brokers or clearing house.

## 33. CONTRACT LIABILITIES

|                      | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|----------------------|------------------|------------------|
| Contract liabilities | <b>55,479</b>    | 18,128           |

The obligation of the Group to transfer advisory and management services to customers according to consideration received was presented as contract liabilities.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 34. DEFERRED TAX ASSETS

The analysis of deferred tax assets is as follows:

|                     | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---------------------|------------------|------------------|
| Deferred tax assets | <b>10,758</b>    | 18,685           |

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

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Balance at beginning of year                                       | <b>18,685</b>    | 656              |
| Impact on adoption of HKFRS 9                                      | –                | 13,291           |
| (Charged)/credited to the income statement (Note 13)               | <b>(7,631)</b>   | 5,323            |
| Offset deferred tax liabilities                                    | –                | (130)            |
| Exchange difference arising from translation of foreign operations | <b>(296)</b>     | (455)            |
| Balance at end of year   | <b>10,758</b>    | 18,685           |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 34. 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<br>for staff<br>costs<br>HK\$'000 | Accrued<br>expenses<br>HK\$'000 | Tax loss<br>HK\$'000 | Allowance<br>for<br>impairment<br>loss<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|---|---|---------------------------------|----------------------|--|--------------------|-------------------|
| 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<br>statement                             | 2   | (19)                            | 5,260                | -  | 80                 | 5,323             |
| Offset deferred tax liabilities                                       | -   | -                               | -                    | -  | (130)              | (130)             |
| Exchange difference arising from<br>translation of foreign operations | -   | -                               | -                    | -  | (455)              | (455)             |
| At 31 December 2018   | 363   | 49                              | 5,260                | 13,291   | (278)              | 18,685            |
| Credited/(charged) to income<br>statement                             | 5   | 44                              | 4,470                | (12,140)   | (10)               | (7,631)           |
| Exchange difference arising from<br>translation of foreign operations | -   | -                               | -                    | -  | (296)              | (296)             |
| At 31 December 2019   | <u>368</u>                                  | <u>93</u>                       | <u>9,730</u>         | <u>1,151</u>                                       | <u>(584)</u>       | <u>10,758</u>     |

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.

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Approximate estimated unused tax losses available for offset<br>against future profits | <u>264,972</u>   | <u>276,276</u>   |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 35. SHARE CAPITAL

|                                    | Number of shares           |                            | Share capital    |                  |
|------------------------------------|----------------------------|----------------------------|------------------|------------------|
|                                    | 2019<br>Thousand<br>Shares | 2018<br>Thousand<br>Shares | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
| <b>Issued and fully paid</b>       |                            |                            |                  |                  |
| At the end of the reporting period | <u>2,734,392</u>           | <u>2,734,392</u>           | <u>3,942,216</u> | <u>3,942,216</u> |

## 36. BORROWINGS

## (a) Outstanding borrowings

|  | 2019<br>HK\$'000  | 2018<br>HK\$'000 |
|--|-------------------|------------------|
| Bank loans and other borrowings                  |                   |                  |
| Non-current – ultimate holding company (Note 37) | <u>450,000</u>    | 450,000          |
| Non-current – authorised institutions            | <u>4,514,230</u>  | <u>4,538,200</u> |
|  | <u>4,964,230</u>  | <u>4,988,200</u> |
| Current – ultimate holding company (Note 37)     | –                 | 400,000          |
| Current – authorised institutions                | <u>3,216,467</u>  | <u>363,630</u>   |
|  | <u>3,216,467</u>  | <u>763,630</u>   |
| Obligation under repurchase agreements           |                   |                  |
| Non-current                                      | <u>248,915</u>    | 478,146          |
| Current  | <u>1,222,714</u>  | <u>193,936</u>   |
|  | <u>1,471,629</u>  | <u>672,082</u>   |
| Subordinated loans (Note 37)                     |                   |                  |
| Non-current                                      | <u>1,000,000</u>  | <u>1,000,000</u> |
| Total  | <u>10,652,326</u> | <u>7,423,912</u> |

As at 31 December 2019, the carrying amount included within financial assets at fair value through profit or loss subject to repurchase agreements was HK\$1,214,328 thousand (31 December 2018: Nil).



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 36. BORROWINGS (continued)

### (b) Borrowings repayable

|                                 | 2019<br>HK\$'000  | 2018<br>HK\$'000 |
|---------------------------------|-------------------|------------------|
| Bank loans and other borrowings |                   |                  |
| Within 1 year                   | 4,439,181         | 957,566          |
| Between 1 and 2 years           | 5,213,145         | –                |
| Between 2 and 5 years           | –                 | 5,466,346        |
|                                 | <b>9,652,326</b>  | 6,423,912        |
| Undated                         | 1,000,000         | 1,000,000        |
|                                 | <b>10,652,326</b> | 7,423,912        |

As at 31 December 2019 and 31 December 2018, all bank borrowings were unsecured.

## 37. RELATED PARTY TRANSACTIONS

Details of the Company's subsidiaries, associates and joint ventures are disclosed in Note 19, 20 and 21. During the years ended 31 December 2019 and 2018, the Group entered into the following material transactions with related parties:

### (a) Ultimate holding company

| Transaction  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Interest income from deposits*   | 5,020            | 3,883            |
| Finance costs  | 55,246           | 78,058           |
| Commission income*   | –                | 1,645            |
| Commission expenses*   | 2,022            | 3,390            |
| Asset management and advisory income*                                    | 3,539            | 7,252            |
| Fund management fee income*  | 19,787           | 16,689           |
| Underwriting fee income*   | 312              | 547              |
| Rental expenses*   | 280              | 320              |
| Other operating expenses*  | 192              | 157              |
| Other operating expenses   | 1,311            | 1,320            |
| Trading gains from derivative transactions*                              | 15,527           | –                |
| Trading losses from derivative transactions*                             | –                | 7,420            |
| Realised gain on financial assets at fair value through profit or loss   | 2,025            | 1,948            |
| Unrealised gain on financial assets at fair value through profit or loss | 12               | –                |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 37. RELATED PARTY TRANSACTIONS (continued)

## (a) Ultimate holding company (continued)

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| <b>Balance of transaction</b>              |                  |                  |
| Derivative financial assets                | 701              | 5,306            |
| Borrowings                                 | 450,000          | 850,000          |
| Subordinated loans                         | 1,000,000        | 1,000,000        |
| Accounts payable                           | 95,922           | 31,858           |
| Amount due to the ultimate holding company | <u>5,459</u>     | <u>3,745</u>     |

## (b) Fellow subsidiaries, associates and joint ventures

|                                       | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| <b>Transaction</b>                    |                  |                  |
| Interest income from deposits*        | 29               | 79               |
| Commission income*                    | 7,388            | 8,981            |
| Commission expenses*                  | 1,709            | 1,413            |
| Asset management and advisory income* | –                | 3,985            |
| Asset management and advisory income  | 1,903            | 1,544            |
| Underwriting fee income*              | 5,494            | 4,293            |
| Rental expenses*                      | 8,883            | 8,984            |
| Other operating expenses*             | 2,586            | 8,442            |
| Fund management fee income            | <u>3,053</u>     | <u>1,692</u>     |

|                                   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| <b>Balance of transaction</b>     |                  |                  |
| Amount due from an associate      | 547              | –                |
| Amount due to a fellow subsidiary | <u>55</u>        | <u>83</u>        |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 37. RELATED PARTY TRANSACTIONS (continued)

### (c) Related parties

|                                      | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| <b>Transaction</b>                   |                  |                  |
| Interest income from debt investment | 2,631            | 7,233            |
| Fund management fee income           | <u>16,351</u>    | <u>19,388</u>    |

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| <b>Balance of transaction</b>          |                  |                  |
| Gross amounts due from related parties | 1,941            | 3,243            |
| Less: impairment allowance             | (4)              | (1)              |
|  | <u>1,937</u>     | <u>3,242</u>     |

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

### (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:

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| Salaries and other short-term employee benefits | 20,675           | 20,524           |
| Termination benefits                            | –                | –                |
| Post-employment benefits                        | –                | –                |
| Other long-term benefits                        | 1,705            | 1,677            |
| Share-based payments                            | –                | –                |
|   | <u>22,380</u>    | <u>22,201</u>    |

For details of the key management personnel of the Group in 2019, please refer to the section headed "Biographies of Directors and Senior Management" of this annual report.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 37. RELATED PARTY TRANSACTIONS (continued)

#### 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

The commission income represented brokerage commission gained from a fellow subsidiary. Commission income was derived from the Group's securities brokerage business and determined on terms similar to those transactions conducted with independent third parties.

(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

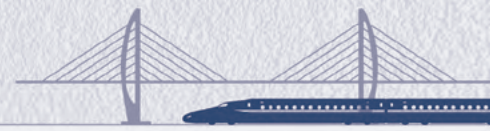
The Group has agreements with an associate BIAM Leveraged Credit Fund SP and its related parties, BOCOM International Dragon Core Growth Fund, Global Strategic Emerging Markets Bond Fund, BOCOM International Global Investment Limited, Horizon Investment Limited, Premium Investment Limited, Prosperity Investment Limited, BIAM Enhanced Income 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.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 37. RELATED PARTY TRANSACTIONS (continued)

Notes (continued)

(ix) Borrowings

A portion of the bank loan was obtained from the ultimate holding company. Details of the bank loan are stated in Note 36(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 36(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.

(xii) Other operating expenses

The other operating expenses paid to the ultimate holding company and fellow subsidiaries 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 derivative 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/an associate/related parties

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



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 38. 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

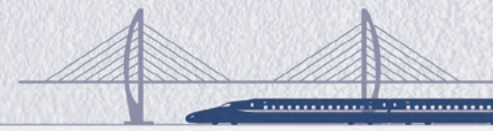
The Group has been involved in unconsolidated structured entities through investments in structured entities or acting as the investment manager of the structured entities. The unconsolidated structured entities consist primarily of special purpose vehicles ("SPV") for investment trading on asset management 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.

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

As at 31 December 2019 and 2018, 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:

|   | 2019<br>HK\$'000        | 2018<br>HK\$'000        |
|---|-------------------------|-------------------------|
| Financial assets at fair value through other comprehensive income | <b>208,821</b>          | 116,119                 |
| Financial assets at fair value through profit or loss             | <b>34,172</b>           | 30,812                  |
| Maximum exposure to loss  | <b><u>3,228,431</u></b> | <b><u>3,132,369</u></b> |

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.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 38. STRUCTURED ENTITIES (continued)

### (a) Unconsolidated structured entities (continued)

#### *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 2019 and 2018, the fair value of investments managed by the unconsolidated structured entities is summarised in the table below:

|  | 2019<br>HK\$'000         | 2018<br>HK\$'000  |
|--|--------------------------|-------------------|
| Fair value of investments managed by the unconsolidated structure entities | <b><u>17,646,700</u></b> | <u>17,220,632</u> |

#### *Transactions with unconsolidated structured entities*

For the years ended 31 December 2019 and 2018, the Group earned management fee 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 is summarised in the table below:

|                       | 2019<br>HK\$'000     | 2018<br>HK\$'000 |
|-----------------------|----------------------|------------------|
| Management fee income | <b>42,648</b>        | 50,858           |
| Interest income       | <b>2,631</b>         | 7,462            |
|                       | <b><u>45,279</u></b> | <u>58,320</u>    |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 38. STRUCTURED ENTITIES (continued)

#### (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 2019 and 2018, the fair value of investments managed by the consolidated structured entities is summarised in the table below:

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Fair value of investments managed by the consolidated structure entities | <u>759,532</u>   | <u>36,572</u>    |

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

During the years ended 31 December 2019 and 2018, 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 2019 and 2018. 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 39. COMMITMENTS

### Operating leases commitments

As at 31 December 2018, the future aggregate minimum lease payments under non-cancellable operating leases were presented under the principles of HKAS 17.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term or low-value leases. The table below indicates non-cancellable operating leases commitments related to short-term leases as at 31 December 2019:

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| No later than 1 year                        | 13               | 70,742           |
| Later than 1 year and no later than 5 years | –                | 79,505           |
|   | <b>13</b>        | <b>150,247</b>   |

### 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.

|                      | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|----------------------|------------------|------------------|
| Unfunded commitments | <b>169,575</b>   | <b>274,803</b>   |

### Loan commitments

The following table indicates the contractual amounts of the Group's credit related commitments which the Group has committed to its customers:

|                                    | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| Loan commitments<br>– Under 1 year | <b>97,163</b>    | –                |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

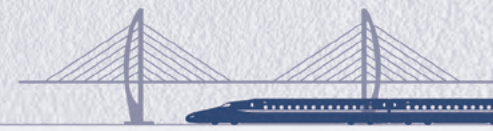
### 40. CONTINGENT LIABILITIES

#### Guaranteed return by asset management service

In connection with the Group's asset management services, 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 ended 31 December 2018, the average yield of the relevant investment portfolio had been below the guaranteed return and the Group has paid the client HK\$840,000 equivalent of guarantee fee to fulfil the guarantee provided. During the year ended 31 December 2019, the average yield of the relevant investment portfolios was above the guaranteed return. As such, no relevant contingent liability was recognised for the year ended 31 December 2019.





# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT

### 41.1 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, amounts due from an associate and related parties, cash and bank balances, accounts payable, borrowings, obligation under repurchase agreements, lease liabilities, 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.

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 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (i) Summary of financial assets and liabilities

|   | 2019<br>HK\$'000  | 2018<br>HK\$'000  |
|---|-------------------|-------------------|
| <b>Financial assets</b>   |                   |                   |
| Other assets  | 24,710            | 22,867            |
| Loans and advances  | 2,326,495         | 1,425,351         |
| Accounts receivable   | 511,929           | 641,190           |
| Other receivables   | 295,099           | 234,979           |
| Margin loans to customers   | 2,679,240         | 3,918,371         |
| Receivable from reverse repurchase agreements                     | 604,583           | 625,181           |
| Amount due from an associate                                      | 547               | –                 |
| Amounts due from related parties                                  | 1,937             | 3,242             |
| Financial assets at fair value through other comprehensive income | 4,630,539         | 2,503,218         |
| Financial assets at fair value through profit or loss             | 6,507,553         | 4,141,644         |
| Derivative financial assets                                       | 2,224             | 5,306             |
| Cash and bank balances  | 545,141           | 594,005           |
|   | <u>18,129,997</u> | <u>14,115,354</u> |
| <b>Financial liabilities</b>                                      |                   |                   |
| Borrowings  | 8,180,697         | 5,751,830         |
| Subordinated loans from the ultimate holding company              | 1,000,000         | 1,000,000         |
| Obligation under repurchase agreements                            | 1,471,629         | 672,082           |
| Other payables  | 29,195            | 17,410            |
| Accounts payable  | 405,443           | 496,605           |
| Lease liabilities   | 76,719            | –                 |
| Amount due to the ultimate holding company                        | 5,459             | 3,745             |
| Amount due to a fellow subsidiary                                 | 55                | 83                |
| Financial liabilities at fair value through profit or loss        | 723,871           | 30,960            |
| Derivative financial liabilities                                  | 2,942             | 5,289             |
|   | <u>11,896,010</u> | <u>7,978,004</u>  |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (a) Market risk (continued)

##### (ii) Currency risk

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

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 2019 |   |   |  | Total<br>HK\$'000 |
|---|------------------------|---|---|--|-------------------|
|   | HKD<br>HK\$'000        | USD<br>(in HKD<br>equivalent)<br>HK\$'000 | RMB<br>(in HKD<br>equivalent)<br>HK\$'000 | Other<br>foreign<br>currencies<br>(in HKD<br>equivalent)<br>HK\$'000 |                   |
| <b>Financial assets</b>   |                        |   |   |  |                   |
| Other assets  | 24,015                 | -   | 695                                       | -  | 24,710            |
| Accounts receivable   | 383,554                | 104,985                                   | 20,140                                    | 3,250  | 511,929           |
| Other receivables   | 26,701                 | 248,496                                   | 18,904                                    | 998  | 295,099           |
| Loans and advances  | 123,595                | 2,202,900                                 | -   | -  | 2,326,495         |
| Margin loans to customers   | 2,521,332              | 157,908                                   | -   | -  | 2,679,240         |
| Receivable from reverse repurchase agreements                     | -                      | 604,583                                   | -   | -  | 604,583           |
| Amount due from an associate                                      | -                      | 547                                       | -   | -  | 547               |
| Amounts due from related parties                                  | 502                    | 1,435                                     | -   | -  | 1,937             |
| Financial assets at fair value through other comprehensive income | 1,688                  | 4,544,302                                 | 31,188                                    | 53,361   | 4,630,539         |
| Financial assets at fair value through profit or loss             | 205,761                | 6,154,046                                 | 147,746                                   | -  | 6,507,553         |
| Derivative financial assets                                       | -                      | 730                                       | -   | 1,494  | 2,224             |
| Cash and bank balances  | 262,755                | 132,462                                   | 147,918                                   | 2,006  | 545,141           |
| <b>Total financial assets</b>                                     | <b>3,549,903</b>       | <b>14,152,394</b>                         | <b>366,591</b>                            | <b>61,109</b>  | <b>18,129,997</b> |
| <b>Financial liabilities</b>                                      |                        |   |   |  |                   |
| Borrowings  | 1,000,000              | 7,180,697                                 | -   | -  | 8,180,697         |
| Subordinated loans from the ultimate holding company              | 1,000,000              | -   | -   | -  | 1,000,000         |
| Obligation under repurchase agreements                            | -                      | 1,471,629                                 | -   | -  | 1,471,629         |
| Other payables  | 17,377                 | 11,773                                    | 13  | 32   | 29,195            |
| Accounts payable  | 338,398                | 41,054                                    | 25,840                                    | 151  | 405,443           |
| Lease liabilities   | 71,346                 | -   | 5,373                                     | -  | 76,719            |
| Amount due to the ultimate holding company                        | 4,956                  | 503                                       | -   | -  | 5,459             |
| Amount due to a fellow subsidiary                                 | 55                     | -   | -   | -  | 55                |
| Financial liabilities at fair value through profit or loss        | -                      | 678,501                                   | 33,605                                    | 11,765   | 723,871           |
| Derivative financial liabilities                                  | -                      | 2,614                                     | 328                                       | -  | 2,942             |
| <b>Total financial liabilities</b>                                | <b>2,432,132</b>       | <b>9,386,771</b>                          | <b>65,159</b>                             | <b>11,948</b>  | <b>11,896,010</b> |
| <b>Net on-balance sheet position</b>                              | <b>1,117,771</b>       | <b>4,765,623</b>                          | <b>301,432</b>                            | <b>49,161</b>  | <b>6,233,987</b>  |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

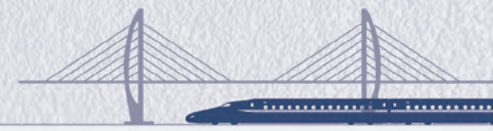
## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (ii) Currency risk (continued)

|   | As at 31 December 2018 |   |   |  | Total<br>HK\$'000 |
|---|------------------------|---|---|--|-------------------|
|   | HKD<br>HK\$'000        | USD<br>(in HKD<br>equivalent)<br>HK\$'000 | RMB<br>(in HKD<br>equivalent)<br>HK\$'000 | Other<br>foreign<br>currencies<br>(in HKD<br>equivalent)<br>HK\$'000 |                   |
| <b>Financial assets</b>   |                        |   |   |  |                   |
| 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           |
| <b>Total financial assets</b>                                     | <b>5,436,359</b>       | <b>8,244,086</b>                          | <b>355,407</b>                            | <b>79,502</b>  | <b>14,115,354</b> |
| <b>Financial liabilities</b>                                      |                        |   |   |  |                   |
| 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             |
| <b>Total financial liabilities</b>                                | <b>2,592,561</b>       | <b>5,348,674</b>                          | <b>33,598</b>                             | <b>3,171</b>   | <b>7,978,004</b>  |
| <b>Net on-balance sheet position</b>                              | <b>2,843,798</b>       | <b>2,895,412</b>                          | <b>321,809</b>                            | <b>76,331</b>  | <b>6,137,350</b>  |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 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*

|                          | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--------------------------|------------------|------------------|
| RMB                      | 25,170           | 26,871           |
| Other foreign currencies | 4,105            | 6,374            |



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 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 2019  | Overdue<br>HK\$'000 | Within<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000 | 1 – 5<br>years<br>HK\$'000 | Over<br>5 years<br>HK\$'000 | Non-<br>interest<br>bearing<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------|-------------------------------|-----------------------------|-----------------------------------|----------------------------|-----------------------------|---|-------------------|
| <b>Financial assets</b>   |                     |                               |                             |                                   |                            |                             |   |                   |
| Other assets  | -                   | -                             | -                           | -                                 | -                          | -                           | 24,710                                  | 24,710            |
| Loans and advances  | -                   | -                             | -                           | 817,323                           | 1,509,172                  | -                           | -                                       | 2,326,495         |
| Accounts receivable   | -                   | 511,929                       | -                           | -                                 | -                          | -                           | -                                       | 511,929           |
| Other receivables   | -                   | -                             | -                           | -                                 | -                          | -                           | 295,099                                 | 295,099           |
| Margin loans to customers   | -                   | 2,679,240                     | -                           | -                                 | -                          | -                           | -                                       | 2,679,240         |
| Receivable from reverse<br>repurchase agreements                        | -                   | 604,583                       | -                           | -                                 | -                          | -                           | -                                       | 604,583           |
| Amount due from an<br>associate   | -                   | -                             | -                           | -                                 | -                          | -                           | 547                                     | 547               |
| Amounts due from related<br>parties                                     | -                   | -                             | -                           | -                                 | -                          | -                           | 1,937                                   | 1,937             |
| Financial assets at fair<br>value through other<br>comprehensive income | -                   | 108,800                       | 135,549                     | 1,213,260                         | 2,009,262                  | 323,705                     | 839,963                                 | 4,630,539         |
| Financial assets at fair value<br>through profit or loss                | -                   | -                             | -                           | 861,120                           | 2,109,281                  | 227,281                     | 3,309,871                               | 6,507,553         |
| Derivative financial assets   | -                   | -                             | -                           | -                                 | -                          | -                           | 2,224                                   | 2,224             |
| Cash and bank balances  | -                   | 543,445                       | -                           | 1,696                             | -                          | -                           | -                                       | 545,141           |
|   | -                   | 4,447,997                     | 135,549                     | 2,893,399                         | 5,627,715                  | 550,986                     | 4,474,351                               | 18,129,997        |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (a) Market risk (continued)

##### (iii) Interest rate risk (continued)

| As at 31 December 2019   | Overdue<br>HK\$'000 | Within<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000 | 1 – 5<br>years<br>HK\$'000 | Over<br>5 years<br>HK\$'000 | Non-<br>interest<br>bearing<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------|-------------------------------|-----------------------------|-----------------------------------|----------------------------|-----------------------------|---|-------------------|
| <b>Financial liabilities</b>                                     |                     |                               |                             |                                   |                            |                             |   |                   |
| Borrowings   | -                   | 8,180,697                     | -                           | -                                 | -                          | -                           | -                                       | 8,180,697         |
| Subordinated loans from<br>the ultimate holding<br>company       | -                   | 1,000,000                     | -                           | -                                 | -                          | -                           | -                                       | 1,000,000         |
| Obligation under<br>repurchase agreements                        | -                   | 1,471,629                     | -                           | -                                 | -                          | -                           | -                                       | 1,471,629         |
| Other payables   | -                   | -                             | -                           | -                                 | -                          | -                           | 29,195                                  | 29,195            |
| Accounts payable   | -                   | -                             | -                           | -                                 | -                          | -                           | 405,443                                 | 405,443           |
| Lease liabilities  | -                   | 5,046                         | 10,040                      | 36,614                            | 25,019                     | -                           | -                                       | 76,719            |
| Amount due to the ultimate<br>holding company                    | -                   | -                             | -                           | -                                 | -                          | -                           | 5,459                                   | 5,459             |
| Amount due to a fellow<br>subsidiary                             | -                   | -                             | -                           | -                                 | -                          | -                           | 55                                      | 55                |
| Financial liabilities at fair<br>value through profit<br>or loss | -                   | -                             | -                           | -                                 | -                          | -                           | 723,871                                 | 723,871           |
| Derivative financial liabilities                                 | -                   | -                             | -                           | -                                 | -                          | -                           | 2,942                                   | 2,942             |
|  | -                   | 10,657,372                    | 10,040                      | 36,614                            | 25,019                     | -                           | 1,166,965                               | 11,896,010        |
| Interest rate sensitivity gap                                    | -                   | (6,209,375)                   | 125,509                     | 2,856,785                         | 5,602,696                  | 550,986                     | 3,307,386                               | 6,233,987         |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (iii) Interest rate risk (continued)

| As at 31 December 2018  | Overdue<br>HK\$'000 | Within<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000 | 1 – 5<br>years<br>HK\$'000 | Over<br>5 years<br>HK\$'000 | Non-<br>interest<br>bearing<br>HK\$'000 | Total<br>HK\$'000 |
|---|---------------------|-------------------------------|-----------------------------|-----------------------------------|----------------------------|-----------------------------|---|-------------------|
| <b>Financial assets</b>   |                     |                               |                             |                                   |                            |                             |   |                   |
| 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<br>repurchase agreements                        | -                   | 625,181                       | -                           | -                                 | -                          | -                           | -                                       | 625,181           |
| Amounts due from related<br>parties                                     | -                   | -                             | -                           | -                                 | -                          | -                           | 3,242                                   | 3,242             |
| Financial assets at fair<br>value through other<br>comprehensive income | -                   | -                             | 39,187                      | 173,712                           | 798,518                    | 295,258                     | 1,196,543                               | 2,503,218         |
| Financial assets at fair value<br>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 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (a) Market risk (continued)

##### (iii) Interest rate risk (continued)

| As at 31 December 2018   | Overdue<br>HK\$'000 | Within<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000 | 1 – 5<br>years<br>HK\$'000 | Over<br>5 years<br>HK\$'000 | Non-<br>interest<br>bearing<br>HK\$'000 | Total<br>HK\$'000 |
|--|---------------------|-------------------------------|-----------------------------|-----------------------------------|----------------------------|-----------------------------|---|-------------------|
| <b>Financial liabilities</b>                                     |                     |                               |                             |                                   |                            |                             |   |                   |
| Borrowings   | -                   | 5,751,830                     | -                           | -                                 | -                          | -                           | -                                       | 5,751,830         |
| Subordinated loans from<br>the ultimate holding<br>company       | -                   | 1,000,000                     | -                           | -                                 | -                          | -                           | -                                       | 1,000,000         |
| Obligation under<br>repurchase agreements                        | -                   | 672,082                       | -                           | -                                 | -                          | -                           | -                                       | 672,082           |
| Other payables   | -                   | -                             | -                           | -                                 | -                          | -                           | 17,410                                  | 17,410            |
| Accounts payable   | -                   | -                             | -                           | -                                 | -                          | -                           | 496,605                                 | 496,605           |
| Amount due to the ultimate<br>holding company                    | -                   | -                             | -                           | -                                 | -                          | -                           | 3,745                                   | 3,745             |
| Amount due to a fellow<br>subsidiary                             | -                   | -                             | -                           | -                                 | -                          | -                           | 83                                      | 83                |
| Financial liabilities at fair<br>value through profit<br>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         |

#### 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (iii) Interest rate risk (continued)

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.

|   | 2019<br>HK\$'000   | 2018<br>HK\$'000 |
|---|--------------------|------------------|
| <b>Assets</b>   |                    |                  |
| Accounts receivable – dealing in securities and futures | 499,487            | 626,076          |
| Margin loans to customers                               | 2,679,240          | 3,918,371        |
| Receivable from reverse repurchase agreements           | 604,583            | 625,181          |
| Loans and advances                                      | 2,326,495          | 1,425,351        |
| Cash and bank balances                                  | 545,141            | 594,005          |
| <b>Liabilities</b>                                      |                    |                  |
| Borrowings  | (8,180,697)        | (5,751,830)      |
| Subordinated loans from the ultimate holding company    | (1,000,000)        | (1,000,000)      |
| Obligation under repurchase agreements                  | (1,471,629)        | (672,082)        |
|   | <b>(3,997,380)</b> | <b>(234,928)</b> |

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.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (a) Market risk (continued)

##### (iii) Interest rate risk (continued)

Change in basis points

|                                 | 31 December     |                 |                 |                 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                 | 2019            |                 | 2018            |                 |
|                                 | +25<br>HK\$'000 | -25<br>HK\$'000 | +25<br>HK\$'000 | -25<br>HK\$'000 |
| Impact on profit after taxation | <b>(8,345)</b>  | <b>8,345</b>    | (490)           | 490             |

##### 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:

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Financial assets at fair value through other comprehensive income – debt   | <b>3,790,577</b> | 1,306,675        |
| Financial assets at fair value through profit or loss – debt               | <b>2,754,622</b> | 444,031          |
| Financial liabilities at fair value through profit or loss – notes payable | <b>(692,674)</b> | –                |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### 41.1 Financial risk factors (continued)

##### (a) Market risk (continued)

##### (iii) Interest rate risk (continued)

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 |          |          |          |
|---------------------------------|-------------|----------|----------|----------|
|                                 | 2019        |          | 2018     |          |
|                                 | +25         | -25      | +25      | -25      |
|                                 | HK\$'000    | HK\$'000 | HK\$'000 | HK\$'000 |
| Impact on profit after taxation | (4,507)     | 4,535    | (1,298)  | 1,302    |
| Impact on equity                | (16,571)    | 16,716   | (8,062)  | 8,163    |

##### (iv) Other price risk

The Group is 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (a) Market risk (continued)

##### (iv) Other price risk (continued)

*Financial assets at fair value through other comprehensive income*

|                          | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--------------------------|------------------|------------------|
| Listed equity securities | 1,688            | 2,475            |
| Preference shares        | 753,725          | 1,127,504        |
| Unlisted equity          | 84,549           | 66,564           |
|                          | <u>839,962</u>   | <u>1,196,543</u> |
| Impact on equity         |                  |                  |
| Increases by 10%         | 83,996           | 119,654          |
| Decreases by 10%         | (83,996)         | (119,654)        |

*Financial assets at fair value through profit or loss*

|                                 | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---------------------------------|------------------|------------------|
| Listed equity securities        | 214,459          | 182,873          |
| Preference shares               | 1,238,733        | 1,037,617        |
| Funds                           | 34,172           | 30,812           |
| Unlisted fund                   | 1,616,259        | 1,925,854        |
| Unlisted equity                 | 97,416           | 78,200           |
| Equity-linked loan              | 443,061          | 440,266          |
|                                 | <u>3,644,100</u> | <u>3,695,622</u> |
| Impact on profit after taxation |                  |                  |
| Increases by 10%                | 304,282          | 308,584          |
| Decreases by 10%                | (304,282)        | (308,584)        |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (iv) Other price risk (continued)

*Derivative financial assets*

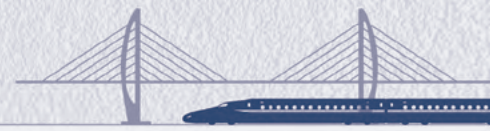
|                                 | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---------------------------------|------------------|------------------|
| Derivative financial assets     | <u>2,224</u>     | <u>5,306</u>     |
| Impact on profit after taxation |                  |                  |
| Increases by 10%                | 186              | 443              |
| Decreases by 10%                | <u>(186)</u>     | <u>(443)</u>     |

*Financial liabilities at fair value through profit or loss*

|  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--|------------------|------------------|
| Financial liabilities to the investors of the funds consolidated | (11,765)         | (11,410)         |
| Notes payable  | (692,674)        | –                |
| Structure note payable   | <u>(19,432)</u>  | <u>(19,550)</u>  |
|  | <u>(723,871)</u> | <u>(30,960)</u>  |
| Impact on profit after taxation                                  |                  |                  |
| Increases by 10%   | (60,443)         | (2,585)          |
| Decreases by 10%   | <u>60,443</u>    | <u>2,585</u>     |

*Derivative financial liabilities*

|                                  | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|----------------------------------|------------------|------------------|
| Derivative financial liabilities | <u>(2,942)</u>   | <u>(5,289)</u>   |
| Impact on profit after taxation  |                  |                  |
| Increases by 10%                 | (246)            | (442)            |
| Decreases by 10%                 | <u>246</u>       | <u>442</u>       |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 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.

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.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### 41.1 Financial risk factors (continued)

##### (b) Credit risk (continued)

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

|  | 2019<br>HK\$'000  | 2018<br>HK\$'000 |
|--|-------------------|------------------|
| Other assets   | 24,710            | 22,867           |
| Loans and advances   | 2,326,495         | 1,425,351        |
| Accounts receivable  | 511,929           | 641,190          |
| Other receivables  | 295,099           | 234,979          |
| Margin loans to customers  | 2,679,240         | 3,918,371        |
| Receivable from reverse repurchase agreements                            | 604,583           | 625,181          |
| Amount due from an associate   | 547               | –                |
| Amounts due from related parties   | 1,937             | 3,242            |
| Financial assets at fair value through other comprehensive income – debt | 3,790,577         | 1,306,675        |
| Financial assets at fair value through profit or loss – debt             | 2,754,622         | 444,031          |
| Derivative financial assets  | 2,224             | 5,306            |
| Cash and bank balances   | 545,141           | 594,005          |
| Loan commitments   | 97,163            | –                |
|  | <b>13,634,267</b> | <b>9,221,198</b> |

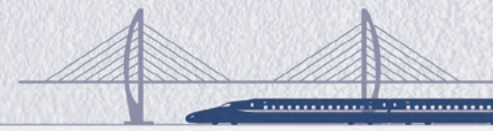
##### *Other assets*

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 and loan commitments*

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.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

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

##### *Loans and advances and loan commitments (continued)*

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.

"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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### 41.1 Financial risk factors (continued)

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

###### *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.

###### *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.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

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

##### *Margin loans to customers (continued)*

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.

##### *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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

**(b) Credit risk (continued)***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.

*Financial assets at fair value through other comprehensive income – debt*

|                           | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---------------------------|------------------|------------------|
| Standard & Poor's rating: |                  |                  |
| BBB+                      | 68,403           | 62,448           |
| BBB                       | 255,302          | 232,810          |
| BB                        | 134,782          | 19,797           |
| BB-                       | 93,622           | 19,245           |
| B+                        | 10,671           | –                |
| B-                        | 231,695          | 206,673          |
| CCC-                      | 84,835           | –                |
| Fitch's rating:           |                  |                  |
| BBB                       | 32,186           | –                |
| BB+                       | 78,575           | –                |
| BB                        | 463,207          | –                |
| BB-                       | 191,945          | –                |
| Moody's rating:           |                  |                  |
| A3                        | 108,800          | –                |
| Ba2                       | 120,121          | –                |
| B2                        | 470,645          | 146,121          |
| B3                        | –                | 128,290          |
| Caa1                      | 148,566          | 140,796          |
| No rating <sup>(1)</sup>  | 1,297,222        | 350,495          |
|                           | <b>3,790,577</b> | <b>1,306,675</b> |

<sup>(1)</sup> Financial assets with no rating represent listed and unlisted corporate debts.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

*Financial assets at fair value through profit or loss – debt*

|                           | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---------------------------|------------------|------------------|
| Standard & Poor's rating: |                  |                  |
| A+                        | 2,373            | 3,909            |
| BBB-                      | 23,383           | –                |
| BB                        | 7,288            | –                |
| B                         | 92,478           | –                |
| B-                        | 712,934          | –                |
| Fitch's rating:           |                  |                  |
| BBB+                      | 23,269           | –                |
| BBB                       | 77,965           | 10,692           |
| BBB-                      | 110,161          | –                |
| BB+                       | 47,055           | –                |
| BB-                       | 125,166          | –                |
| B+                        | –                | 19,627           |
| B                         | 278,857          | –                |
| Moody's rating:           |                  |                  |
| Ba1                       | 173,242          | 163,158          |
| Baa1                      | –                | 35,246           |
| B2                        | 139,876          | –                |
| B3                        | 224,547          | –                |
| No rating <sup>(1)</sup>  | 716,028          | 211,399          |
|                           | <b>2,754,622</b> | <b>444,031</b>   |

<sup>(1)</sup> Financial assets with no rating represent listed and unlisted corporate debts.

*Derivative financial assets*

|           | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|-----------|------------------|------------------|
| No rating | <b>2,224</b>     | <b>5,306</b>     |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

**(b) Credit risk (continued)***Derivative financial liabilities*

|                           | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---------------------------|------------------|------------------|
| Standard & Poor's rating: |                  |                  |
| A-                        | 690              | 5,289            |
| No rating                 | 2,252            | –                |
|                           | <u>2,942</u>     | <u>5,289</u>     |

The Group has eight types of financial assets that are subject to the ECL model:

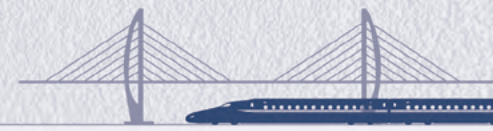
- Loans and advances and loan commitments
- Receivable from reverse repurchase agreements
- Debt investments at FVOCI
- Margin loans to customers
- Accounts receivable
- Other receivables
- Amounts due from an associate and related parties, and
- Cash and bank balances.

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

The Group established 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 ECL 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.



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

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

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.

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 ECL 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 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

**(b) Credit risk (continued)**

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

|  | Stage of assets                        |  |  | Total<br>HK\$'000 |
|--|--|--|--|-------------------|
|  | Stage 1<br>12-month<br>ECL<br>HK\$'000 | Stage 2<br>Lifetime<br>ECL<br>HK\$'000 | Stage 3<br>Lifetime<br>ECL (credit-<br>impaired)<br>HK\$'000 |                   |
| (a) Margin loans to customers  |  |  |  |                   |
| Gross carrying amount as at<br>1 January 2019  | 3,553,670                              | 314,156                                | 141,216  | 4,009,042         |
| Increases  | 641,340                                | 85,442                                 | 6,694  | 733,476           |
| Decreases  | (1,822,997)                            | (58,914)                               | (85,683)   | (1,967,594)       |
| Transfers between stages   |  |  |  |                   |
| – Increase   | 253,800                                | 218,517                                | 228,255  | 700,572           |
| – Decrease   | (446,772)                              | (253,800)                              | —  | (700,572)         |
| As at 31 December 2019   | <u>2,179,041</u>                       | <u>305,401</u>                         | <u>290,482</u>   | <u>2,774,924</u>  |
| Gross carrying amount as at<br>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)       |
| Transfers between stages   |  |  |  |                   |
| – Increase   | 277,361                                | 481,153                                | 12,064   | 770,578           |
| – Decrease   | (492,829)                              | (277,749)                              | —  | (770,578)         |
| As at 31 December 2018   | <u>3,553,670</u>                       | <u>314,156</u>                         | <u>141,216</u>   | <u>4,009,042</u>  |
| (b) Accounts receivable, other<br>receivables, and amounts<br>due from an associate and<br>related companies |  |  |  |                   |
| Gross carrying amount as at<br>1 January 2019  | 879,693                                | —                                      | 1,682  | 881,375           |
| Increases  | 73,300                                 | —                                      | 440  | 73,740            |
| Decreases  | (142,533)                              | —                                      | —  | (142,533)         |
| Transfers between stages   |  |  |  |                   |
| – Increase   | —                                      | —                                      | 114  | 114               |
| – Decrease   | (114)                                  | —                                      | —  | (114)             |
| As at 31 December 2019   | <u>810,346</u>                         | <u>—</u>                               | <u>2,236</u>   | <u>812,582</u>    |
| Gross carrying amount as at<br>1 January 2018  | 718,342                                | —                                      | 9,087  | 727,429           |
| Increases  | 161,351                                | —                                      | —  | 161,351           |
| Decreases  | —                                      | —                                      | (7,405)  | (7,405)           |
| As at 31 December 2018   | <u>879,693</u>                         | <u>—</u>                               | <u>1,682</u>   | <u>881,375</u>    |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

|   | Stage of assets                        |  |  | Total<br>HK\$'000 |
|---|--|--|--|-------------------|
|   | Stage 1<br>12-month<br>ECL<br>HK\$'000 | Stage 2<br>Lifetime<br>ECL<br>HK\$'000 | Stage 3<br>Lifetime<br>ECL (credit-<br>impaired)<br>HK\$'000 |                   |
| (c) Debt investments at FVOCI                   |  |  |  |                   |
| Gross carrying amount as at<br>1 January 2019   | 1,306,675                              | –                                      | –  | 1,306,675         |
| Increases                                       | 2,820,841                              | –                                      | –  | 2,820,841         |
| Decreases                                       | (265,195)                              | (52,029)                               | (19,715)   | (336,939)         |
| Transfers between stages                        |  |  |  |                   |
| – Increase                                      | –                                      | 147,535                                | 100,149  | 247,684           |
| – Decrease                                      | (247,684)                              | –                                      | –  | (247,684)         |
| As at 31 December 2019                          | <u>3,614,637</u>                       | <u>95,506</u>                          | <u>80,434</u>  | <u>3,790,577</u>  |
| Gross carrying amount as at<br>1 January 2018   | 2,166,835                              | –                                      | –  | 2,166,835         |
| Increases                                       | 323,817                                | –                                      | –  | 323,817           |
| Decreases                                       | (1,183,977)                            | –                                      | –  | (1,183,977)       |
| As at 31 December 2018                          | <u>1,306,675</u>                       | <u>–</u>                               | <u>–</u>   | <u>1,306,675</u>  |
| (d) Other financial assets at<br>amortised cost |  |  |  |                   |
| Gross carrying amount as at<br>1 January 2019   | 2,052,827                              | –                                      | 270,970  | 2,323,797         |
| Increases                                       | 2,063,463                              | –                                      | –  | 2,063,463         |
| Decreases                                       | (1,177,455)                            | –                                      | –  | (1,177,455)       |
| Write-off                                       | –                                      | –                                      | (270,970)  | (270,970)         |
| As at 31 December 2019                          | <u>2,938,835</u>                       | <u>–</u>                               | <u>–</u>   | <u>2,938,835</u>  |
| Gross carrying amount as at<br>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)       |
| As at 31 December 2018                          | <u>2,052,827</u>                       | <u>–</u>                               | <u>270,970</u>   | <u>2,323,797</u>  |



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

**(b) Credit risk (continued)**

As at 31 December 2019, 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                        |  |  | Total<br>HK\$'000 |
|--|--|--|--|-------------------|
|  | Stage 1<br>12-month<br>ECL<br>HK\$'000 | Stage 2<br>Lifetime<br>ECL<br>HK\$'000 | Stage 3<br>Lifetime<br>ECL (credit-<br>impaired)<br>HK\$'000 |                   |
| <b>(a) Margin loans to customers</b>   |  |  |  |                   |
| As at 1 January 2019   | 11,569                                 | 251                                    | 78,851   | 90,671            |
| Increases  | 1,463                                  | –                                      | 8,690  | 10,153            |
| Reverses   | (3,264)                                | (1,876)                                | –  | (5,140)           |
| Transfers between stages   |  |  |  |                   |
| – Increase   | 12                                     | 6,398                                  | 1,199  | 7,609             |
| – Decrease   | (7,597)                                | (12)                                   | –  | (7,609)           |
| As at 31 December 2019   | <u>2,183</u>                           | <u>4,761</u>                           | <u>88,740</u>  | <u>95,684</u>     |
| 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)          |
| Transfers between stages   |  |  |  |                   |
| – Increase   | 1,093                                  | 127                                    | –  | 1,220             |
| – Decrease   | (127)                                  | (1,093)                                | –  | (1,220)           |
| As at 31 December 2018   | <u>11,569</u>                          | <u>251</u>                             | <u>78,851</u>  | <u>90,671</u>     |
| <b>(b) Accounts receivable, other receivables, and amounts due from an associate and related parties</b> |  |  |  |                   |
| As at 1 January 2019   | 281                                    | –                                      | 1,683  | 1,964             |
| Increases  | 943                                    | –                                      | 221  | 1,164             |
| Reverses   | (58)                                   | –                                      | –  | (58)              |
| As at 31 December 2019   | <u>1,166</u>                           | <u>–</u>                               | <u>1,904</u>   | <u>3,070</u>      |
| As at 1 January 2018   | 424                                    | –                                      | 9,088  | 9,512             |
| Reverses   | (143)                                  | –                                      | (7,405)  | (7,548)           |
| As at 31 December 2018   | <u>281</u>                             | <u>–</u>                               | <u>1,683</u>   | <u>1,964</u>      |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

|  | Stage of assets                        |  |  | Total<br>HK\$'000 |
|--|--|--|--|-------------------|
|  | Stage 1<br>12-month<br>ECL<br>HK\$'000 | Stage 2<br>Lifetime<br>ECL<br>HK\$'000 | Stage 3<br>Lifetime<br>ECL (credit-<br>impaired)<br>HK\$'000 |                   |
| (c) Debt investments at FVOCI                |  |  |  |                   |
| As at 1 January 2019                         | 12,371                                 | –                                      | –  | 12,371            |
| Increases                                    | 15,262                                 | 3,622                                  | 21,118   | 40,002            |
| Reverses                                     | (2,347)                                | –                                      | –  | (2,347)           |
| Transfers between stages                     |  |  |  |                   |
| – Increase                                   | –                                      | 2,024                                  | 537  | 2,561             |
| – Decrease                                   | (2,561)                                | –                                      | –  | (2,561)           |
| As at 31 December 2019                       | <u>22,725</u>                          | <u>5,646</u>                           | <u>21,655</u>  | <u>50,026</u>     |
| As at 1 January 2018                         | 13,373                                 | –                                      | –  | 13,373            |
| Increases                                    | 4,186                                  | –                                      | –  | 4,186             |
| Reverses                                     | (5,188)                                | –                                      | –  | (5,188)           |
| As at 31 December 2018                       | <u>12,371</u>                          | <u>–</u>                               | <u>–</u>   | <u>12,371</u>     |
| (d) Other financial assets at amortised cost |  |  |  |                   |
| As at 1 January 2019                         | 2,295                                  | –                                      | 270,970  | 273,265           |
| Increases                                    | 7,467                                  | –                                      | –  | 7,467             |
| Reverses                                     | (2,005)                                | –                                      | –  | (2,005)           |
| Write-off                                    | –                                      | –                                      | (270,970)  | (270,970)         |
| As at 31 December 2019                       | <u>7,757</u>                           | <u>–</u>                               | <u>–</u>   | <u>7,757</u>      |
| As at 1 January 2018                         | 5,750                                  | –                                      | 270,970  | 276,720           |
| Increases                                    | 1,918                                  | –                                      | –  | 1,918             |
| Reverses                                     | (5,373)                                | –                                      | –  | (5,373)           |
| As at 31 December 2018                       | <u>2,295</u>                           | <u>–</u>                               | <u>270,970</u>   | <u>273,265</u>    |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 Financial risk factors (continued)

**(b) Credit risk (continued)**

The following tables show the credit exposure to financial instruments as at 31 December 2019 and 31 December 2018:

|   | Stage of assets                        |  |  | Impairment allowance<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|--|--|----------------------------------|-------------------|
|   | Stage 1<br>12-month<br>ECL<br>HK\$'000 | Stage 2<br>Lifetime<br>ECL<br>HK\$'000 | Stage 3<br>Lifetime<br>ECL (credit-<br>impaired)<br>HK\$'000 |                                  |                   |
| <b>As at 31 December 2019</b>   |  |  |  |                                  |                   |
| Margin loans to customers   | 2,179,041                              | 305,401                                | 290,482  | (95,684)                         | 2,679,240         |
| Accounts receivable,<br>other receivables, and<br>amounts due from an<br>associate and related<br>parties | 810,346                                | -                                      | 2,236  | (3,070)                          | 809,512           |
| Debt investments at FVOCI   | 3,614,637                              | 95,506                                 | 80,434   | (50,026)                         | 3,740,551         |
| Other financial assets at<br>amortised cost   | 2,938,835                              | -                                      | -  | (7,757)                          | 2,931,078         |
| Loan commitments  | 97,163                                 | -                                      | -  | -                                | 97,163            |
| <b>As at 31 December 2018</b>   |  |  |  |                                  |                   |
| Margin loans to customers   | 3,553,670                              | 314,156                                | 141,216  | (90,671)                         | 3,918,371         |
| Accounts receivable,<br>other receivables, and<br>amounts due from an<br>associate and related<br>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<br>amortised cost   | 2,052,827                              | -                                      | 270,970  | (273,265)                        | 2,050,532         |
| Loan commitments  | -                                      | -                                      | -  | -                                | -                 |

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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

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

|  | 2019<br>HK\$'000  | 2018<br>HK\$'000  |
|--|-------------------|-------------------|
| Total market value of securities pledged as collateral in respect of margin loans to customers             | <u>11,563,508</u> | <u>17,348,956</u> |
| Total market value of securities pledged as collateral in respect of overdue accounts receivable – clients | <u>268,878</u>    | <u>339,119</u>    |

#### Ageing analysis of past due accounts receivable

##### Accounts receivable

|                            | Less than<br>30 days<br>HK'000 | 31 to 60<br>days<br>HK'000 | 61 to 90<br>days<br>HK'000 | More than<br>90 days<br>HK'000 | Total<br>HK'000 |
|----------------------------|--------------------------------|----------------------------|----------------------------|--------------------------------|-----------------|
| <b>At 31 December 2019</b> |                                |                            |                            |                                |                 |
| Clients                    | 22                             | 2                          | –                          | 52                             | 76              |
| Corporate finance services | –                              | –                          | –                          | 1,486                          | 1,486           |
| Underwriting business      | –                              | –                          | –                          | 1,949                          | 1,949           |
|                            | <u>22</u>                      | <u>2</u>                   | <u>–</u>                   | <u>3,487</u>                   | <u>3,511</u>    |
| <b>At 31 December 2018</b> |                                |                            |                            |                                |                 |
| Clients                    | 122                            | 66                         | 5                          | 145                            | 338             |
| Corporate finance services | –                              | –                          | –                          | 387                            | 387             |
| Underwriting business      | –                              | –                          | –                          | 1,560                          | 1,560           |
|                            | <u>122</u>                     | <u>66</u>                  | <u>5</u>                   | <u>2,092</u>                   | <u>2,285</u>    |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### 41.1 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*

|                 | 2019<br>HK\$'000        | 2018<br>HK\$'000        |
|-----------------|-------------------------|-------------------------|
| Pass            | <b>2,334,252</b>        | 1,427,613               |
| Special Mention | –                       | –                       |
| Substandard     | –                       | –                       |
| Doubtful        | –                       | –                       |
| Loss            | –                       | 270,970                 |
|                 | <b><u>2,334,252</u></b> | <b><u>1,698,583</u></b> |

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

|   | 2019<br>HK\$'000        | 2018<br>HK\$'000        |
|---|-------------------------|-------------------------|
| Total market value of collateral in respect of loans and advances | <b><u>5,563,000</u></b> | <b><u>4,096,150</u></b> |

##### *Economic scenarios and weightings*

The significant assumptions used to estimate ECL are presented as three economic scenarios, including "Optimistic scenario", "Basic scenario", and "Pessimistic scenario", which are applicable to all groups. The weighting of "Basic scenario" adopted by the Group overweights the aggregated weightings of non "Basic scenario".



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (b) Credit risk (continued)

##### *Sensitivity analysis*

As at 31 December 2019, the probability-weighted impairment allowance increased by the following amount compared with basic scenario impairment allowance:

|                    | As at<br>31 December<br>2019<br>HK\$'000 |
|--------------------|--|
| Loans and advances | 2,590                                    |
| Debt securities    | 6,160                                    |
| Margin finance     | (34)                                     |

If the Optimistic and Pessimistic scenario weights are arised 10%, the impairment allowance of loans and advances will increase HK\$2,590 thousand, and the impairment allowance of debt securities will increase HK\$6,160 thousand.

#### (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 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.1 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<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 3 months –<br>1 year<br>HK\$'000 | 1 – 5<br>years<br>HK\$'000 | Undated<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|-----------------------------|----------------------------------|----------------------------|---------------------|-------------------|
| <b>At 31 December 2019</b>                                    |  |                             |                                  |                            |                     |                   |
| Borrowings  | 3,231,118  | 26,889                      | 122,032                          | 5,033,430                  | -                   | 8,413,469         |
| Subordinated loans from the<br>ultimate holding company       | 2,894  | 5,508                       | 25,673                           | 136,300                    | 1,000,000           | 1,170,375         |
| Obligation under repurchase<br>agreements                     | -  | 487,734                     | 277,068                          | 727,614                    | -                   | 1,492,416         |
| Other payables  | 29,195   | -                           | -                                | -                          | -                   | 29,195            |
| Accounts payable  | 405,443  | -                           | -                                | -                          | -                   | 405,443           |
| Amount due to the ultimate holding<br>company                 | 5,459  | -                           | -                                | -                          | -                   | 5,459             |
| Amount due to a fellow subsidiary                             | 55   | -                           | -                                | -                          | -                   | 55                |
| Financial liabilities at fair value<br>through profit or loss | 723,871  | -                           | -                                | -                          | -                   | 723,871           |
|   | <u>4,398,035</u>                                 | <u>520,131</u>              | <u>424,773</u>                   | <u>5,897,344</u>           | <u>1,000,000</u>    | <u>12,240,283</u> |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.1 Financial risk factors (continued)

#### (c) Liquidity risk (continued)

##### (i) Non derivatives (continued)

|   | On demand<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 3 months –<br>1 year<br>HK\$'000 | 1 – 5<br>years<br>HK\$'000 | Undated<br>HK\$'000 | Total<br>HK\$'000 |
|---|--|-----------------------------|----------------------------------|----------------------------|---------------------|-------------------|
| <b>At 31 December 2018</b>                                    |  |                             |                                  |                            |                     |                   |
| Borrowings  | 779,616  | 31,128                      | 141,015                          | 5,258,340                  | -                   | 6,210,099         |
| Subordinated loans from the<br>ultimate holding company       | 2,500  | 4,759                       | 22,180                           | 117,757                    | 1,000,000           | 1,147,196         |
| Obligation under repurchase<br>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<br>company                 | 3,745  | -                           | -                                | -                          | -                   | 3,745             |
| Amount due to a fellow subsidiary                             | 83   | -                           | -                                | -                          | -                   | 83                |
| Financial liabilities at fair value<br>through profit or loss | 30,960   | -                           | -                                | -                          | -                   | 30,960            |
|   | <u>1,330,919</u>                                 | <u>41,076</u>               | <u>357,131</u>                   | <u>5,854,243</u>           | <u>1,000,000</u>    | <u>8,583,369</u>  |

##### (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<br>or less than<br>1 month<br>HK\$'000 | 1 – 3<br>months<br>HK\$'000 | 3 months –<br>1 year<br>HK\$'000 | 1 – 5<br>years<br>HK\$'000 | Undated<br>HK\$'000 | Total<br>HK\$'000 |
|--|--|-----------------------------|----------------------------------|----------------------------|---------------------|-------------------|
| <b>At 31 December 2019</b>   |  |                             |                                  |                            |                     |                   |
| Derivative financial instruments held<br>for trading commodity futures |  |                             |                                  |                            |                     |                   |
| Outflow  | -  | -                           | (63,982)                         | -                          | -                   | (63,982)          |
| Inflow   | -  | -                           | 63,994                           | -                          | -                   | 63,994            |
|  | <u>-</u>   | <u>-</u>                    | <u>(63,982)</u>                  | <u>-</u>                   | <u>-</u>            | <u>(63,982)</u>   |
| <b>At 31 December 2018</b>   |  |                             |                                  |                            |                     |                   |
| Derivative financial instruments held<br>for trading commodity futures |  |                             |                                  |                            |                     |                   |
| Outflow  | -  | -                           | (86,761)                         | -                          | -                   | (86,761)          |
| Inflow   | -  | -                           | 87,083                           | -                          | -                   | 87,083            |
|  | <u>-</u>   | <u>-</u>                    | <u>(86,761)</u>                  | <u>-</u>                   | <u>-</u>            | <u>(86,761)</u>   |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### 41.2 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:

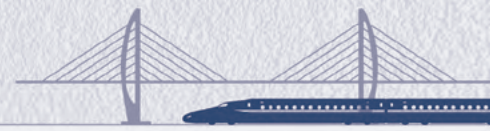
- (i) to comply with the requirements of the Hong Kong Securities and Futures Ordinance ("HKSF") for the Company's licensed subsidiaries in carrying various types of regulated activities;
- (ii) to support the Group's stability and growth;
- (iii) to optimise risk adjusted return to the shareholders; and
- (iv) to maintain a strong capital base to support the development of its business.

The subsidiaries of the Company licensed under the HKSF 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 2019 and 2018, 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.

|                            | 2019<br>HK\$'000  | 2018<br>HK\$'000 |
|----------------------------|-------------------|------------------|
| Total borrowings (Note 36) | <b>10,652,326</b> | 7,423,912        |
| Total equity               | <b>6,627,810</b>  | 6,274,208        |
| Gearing ratio              | <b>160.72%</b>    | 118.32%          |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.3 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.

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.



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.3 Fair value estimation (continued)

| As at 31 December 2019   | Valuation technique                       | Unobservable inputs                         | Range                                   | Relationship of unobservable inputs to fair value |
|--|---|---|---|---|
| <b>Financial assets at fair value through other comprehensive income</b> |   |   |   |   |
| Unlisted equity  | Allocated net asset value                 | Net asset value                             | N/A                                     | (iv)  |
|  | Market comparable approach                | EBITDA multiples                            | 10.7x-27.2x                             | (iii)   |
|  |   | Discount rate for lack of marketability     |   | 35%   |
| Debt investments   | Recent transaction price                  | (i)   | N/A                                     | (v)   |
|  | Recent transaction price                  | (i)   | N/A                                     | (v)   |
| <b>Financial assets at fair value through profit or loss</b>             |   |   |   |   |
| Club debenture   | Recent transaction price                  | Liquidity discount rate                     | 25%                                     | (ii)  |
| Unlisted equity  | Recent transaction price                  | (i)   | N/A                                     | (v)   |
|  | Allocated net asset value                 | Net asset value                             | N/A                                     | (iv)  |
| Unlisted fund  | Market comparable approach                | Sales multiples                             | 0.3x-7.3x                               | (iii)   |
|  |   | Discount rate for lack of marketability     |   | 15.5%-24.5%                                       |
| Preference shares  | Allocated net asset value                 | Net asset value                             | N/A                                     | (iv)  |
|  | Recent transaction price                  | (i)   | N/A                                     | (v)   |
|  | Recent transaction price                  | (i)   | N/A                                     | (v)   |
| Equity-linked loan   | Market comparable approach                | Sales multiples                             | 0.4x-15.2x                              | (iii)   |
|  |   | Discounted cash flow/Monte Carlo Simulation | Discount rate/(i)/Underlying fund terms | 14.6%/N/A/<br>Within<br>1 year                    |
| Structured financial product   | Guaranteed principal plus expected return | Expected rate                               | N/A                                     | (vi)  |
| <b>Financial liabilities at fair value through profit or loss</b>        |   |   |   |   |
| Structured note payable  | Recent transaction price                  | (i)   | N/A                                     | (v)   |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.3 Fair value estimation (continued)

| As at 31 December 2018   | Valuation technique                         | Unobservable inputs                     | Range                 | Relationship of unobservable inputs to fair value |
|--|---|---|-----------------------|---|
| <b>Financial assets at fair value through other comprehensive income</b> |   |   |                       |   |
| Unlisted equity  | Market comparable approach                  | EBITDA multiples                        | 10.7x–27.2x           | (iii)   |
|  |   | Discount rate for lack of marketability | 35%                   | (ii)  |
|  | Allocated net asset value                   | Net asset value                         | N/A                   | (iv)  |
|  | Discounted cash flow                        | Discount rate                           | 6.5%–8.4%             | (ii)  |
| <b>Financial assets at fair value through profit or loss</b>             |   |   |                       |   |
| Club debenture   | Recent transaction price                    | Liquidity discount rate                 | 25%                   | (ii)  |
| Unlisted equity  | Recent transaction price                    | (i)                                     | N/A                   | (v)   |
| Unlisted fund  | Market comparable approach                  | Sales multiples                         | 1.0x–7.6x             | (iii)   |
|  |   | Discount rate for lack of marketability | 17.5%–20.5%           | (ii)  |
|  | Allocated net asset value                   | Net asset value                         | N/A                   | (iv)  |
|  | Recent transaction price                    | (i)                                     | N/A                   | (v)   |
|  | Exit price                                  | (i)                                     | N/A                   | (v)   |
|  | Preference shares                           | Recent transaction price                | (i)                   | N/A   |
| Equity-linked loan   | Discounted cash flow/Monte Carlo Simulation | Discount rate/(i)/Underlying fund terms | 14.5%/N/A/<br>3 years | (ii)/(v)/(vii)                                    |
| <b>Financial liabilities at fair value through profit or loss</b>        |   |   |                       |   |
| Structured note payable  | Recent transaction price                    | (i)                                     | N/A                   | (v)   |

(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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

### 41. FINANCIAL RISK MANAGEMENT (continued)

#### 41.3 Fair value estimation (continued)

- (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 for the year ended 31 December 2019 and 31 December 2018.

|   | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---|------------------|------------------|
| <b>Financial assets at fair value through other comprehensive income</b>    |                  |                  |
| Beginning of the year   | <b>125,301</b>   | 1,217,350        |
| Addition during the year  | <b>178,658</b>   | 58,774           |
| 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  | <b>(58,737)</b>  | (518,272)        |
| Net loss recognised in profit or loss                                       | <b>(1,080)</b>   | (328)            |
| Net loss recognised in other comprehensive income                           | <b>(4,133)</b>   | (3,279)          |
| End of the year   | <b>240,009</b>   | 125,301          |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.3 Fair value estimation (continued)

|   | 2019<br>HK\$'000        | 2018<br>HK\$'000 |
|---|-------------------------|------------------|
| <b>Financial assets at fair value through profit or loss</b>                            |                         |                  |
| Beginning of the year   | <b>3,483,928</b>        | 2,106,150        |
| Addition during the year  | <b>892,743</b>          | 2,209,546        |
| 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  | <b>(1,006,052)</b>      | (1,876,170)      |
| Net gain recognised in profit or loss   | <b>133,681</b>          | 415,458          |
| End of the year   | <b><u>3,504,300</u></b> | <u>3,483,928</u> |

|   | 2019<br>HK\$'000     | 2018<br>HK\$'000 |
|---|----------------------|------------------|
| <b>Financial liabilities at fair value through profit or loss</b> |                      |                  |
| Beginning of the year   | <b>19,550</b>        | –                |
| Addition during the year  | –                    | 19,550           |
| Net loss recognised in profit or loss                             | <b>(118)</b>         | –                |
| End of the year   | <b><u>19,432</u></b> | <u>19,550</u>    |

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 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.3 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*

|  | 2019     |          | 2018     |          |
|--|----------|----------|----------|----------|
|  | +10%     | -10%     | +10%     | -10%     |
|  | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Impact on profit after taxation/total assets | 73,823   | (73,823) | 91,460   | (91,460) |
| Impact on other comprehensive income/equity  | 5,336    | (5,336)  | 5,738    | (5,738)  |

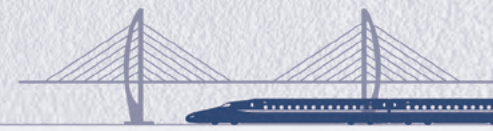
*Change in adjustment to the recent transaction price/exit price*

|  | 2019     |           | 2018     |           |
|--|----------|-----------|----------|-----------|
|  | +10%     | -10%      | +10%     | -10%      |
|  | HK\$'000 | HK\$'000  | HK\$'000 | HK\$'000  |
| Impact on profit after taxation/total assets | 133,878  | (133,878) | 108,813  | (108,813) |
| Impact on other comprehensive income/equity  | 14,833   | (14,833)  | –        | –         |

*Change in expected rate*

|  | 2019     |          | 2018     |          |
|--|----------|----------|----------|----------|
|  | +10%     | -10%     | +10%     | -10%     |
|  | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Impact on profit after taxation/total assets | 10,688   | (10,688) | –        | –        |





# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.3 Fair value estimation (continued)

#### *Sensitivity analysis (continued)*

##### *Change in discount rate*

|   | 2019     |          | 2018     |          |
|---|----------|----------|----------|----------|
|   | +10%     | -10%     | +10%     | -10%     |
|   | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Impact on other comprehensive income/equity | -        | -        | (5,874)  | 5,874    |

##### *Change in multiples*

|  | 2019          |                 | 2018     |          |
|--|---------------|-----------------|----------|----------|
|  | +10%          | -10%            | +10%     | -10%     |
|  | HK\$'000      | HK\$'000        | HK\$'000 | HK\$'000 |
| Impact on profit after taxation/total assets | <b>38,826</b> | <b>(38,826)</b> | 53,707   | (53,707) |
| Impact on other comprehensive income/equity  | <b>900</b>    | <b>(900)</b>    | 918      | (918)    |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

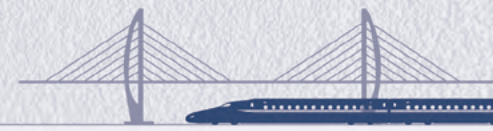
## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.4 Offsetting financial assets and financial liabilities

The Group has net off the financial assets and financial liabilities with counterparties and clearing house for unsettled trades.

(a) *Financial assets*

| As at 31 December 2019           | Gross amount<br>of recognised<br>financial assets<br>HK\$'000 | Gross amount<br>of recognised<br>financial<br>liabilities set<br>off in the<br>consolidated<br>statement<br>of financial<br>position<br>HK\$'000 | Net amounts<br>of financial<br>assets<br>presented<br>in the<br>consolidated<br>statement<br>of financial<br>position<br>HK\$'000 |
|----------------------------------|---|--|---|
| <b>Accounts receivable from</b>  |   |  |   |
| – Clients                        | 456,906   | (350,351)  | 106,555   |
| – Brokers                        | 130,157   | (3,274)  | 126,883   |
| – Clearing house                 | 1,113,281   | (847,493)  | 265,788   |
| – Corporate finance services     | 5,533   | –  | 5,533   |
| – Underwriting business          | 7,170   | –  | 7,170   |
| <b>Margin loans to customers</b> | <u>2,919,522</u>  | <u>(240,282)</u>   | <u>2,679,240</u>  |
| <b>Total</b>                     | <u>4,632,569</u>  | <u>(1,441,400)</u>   | <u>3,191,169</u>  |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

### 41.4 Offsetting financial assets and financial liabilities (continued)

#### (a) *Financial assets (continued)*

| As at 31 December 2018           | Gross amount<br>of recognised<br>financial assets<br>HK\$'000 | Gross amount<br>of recognised<br>financial<br>liabilities set<br>off in the<br>consolidated<br>statement<br>of financial<br>position<br>HK\$'000 | Net amounts<br>of financial<br>assets<br>presented<br>in the<br>consolidated<br>statement<br>of financial<br>position<br>HK\$'000 |
|----------------------------------|---|--|---|
| <b>Accounts receivable from</b>  |   |  |   |
| – 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  |
| <b>Margin loans to customers</b> | <u>4,104,926</u>  | <u>(186,555)</u>   | <u>3,918,371</u>  |
| <b>Total</b>                     | <u>5,501,459</u>  | <u>(941,898)</u>   | <u>4,559,561</u>  |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 41. FINANCIAL RISK MANAGEMENT (continued)

## 41.4 Offsetting financial assets and financial liabilities (continued)

(b) *Financial liabilities*

| As at 31 December 2019     | Gross amount<br>of recognised<br>financial liabilities<br>HK\$'000 | Gross amount<br>of recognised<br>financial assets<br>set off in the<br>consolidated<br>statement<br>of financial<br>position<br>HK\$'000 | Net amounts<br>of financial<br>liabilities<br>presented<br>in the<br>consolidated<br>statement<br>of financial<br>position<br>HK\$'000 |
|----------------------------|--|--|--|
| <b>Accounts payable to</b> |  |  |  |
| – Clients                  | 958,401  | (590,633)  | 367,768  |
| – Clearing house           | 884,172  | (847,493)  | 36,679   |
| – Brokers                  | 4,270  | (3,274)  | 996  |
| <b>Total</b>               | <b>1,846,843</b>   | <b>(1,441,400)</b>   | <b>405,443</b>   |

| As at 31 December 2018     | Gross amount<br>of recognised<br>financial liabilities<br>HK\$'000 | Gross amount<br>of recognised<br>financial assets<br>set off in the<br>consolidated<br>statement<br>of financial<br>position<br>HK\$'000 | Net amounts<br>of financial<br>liabilities<br>presented<br>in the<br>consolidated<br>statement<br>of financial<br>position<br>HK\$'000 |
|----------------------------|--|--|--|
| <b>Accounts payable to</b> |  |  |  |
| – Clients                  | 721,029  | (398,068)  | 322,961  |
| – Clearing house           | 473,425  | (428,660)  | 44,765   |
| – Brokers                  | 244,049  | (115,170)  | 128,879  |
| <b>Total</b>               | <b>1,438,503</b>   | <b>(941,898)</b>   | <b>496,605</b>   |

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

|   | 31/12/2019<br>HK\$'000 | 31/12/2018<br>HK\$'000 |
|---|------------------------|------------------------|
| <b>Non-current Assets</b>   |                        |                        |
| Property and equipment  | 32,083                 | 29,163                 |
| Right-of-use assets   | 48,424                 | –                      |
| Interest in subsidiaries  | 1,569,936              | 1,491,616              |
| Interest in associates  | 195,375                | 195,375                |
| Subordinated loans to subsidiaries                                | 1,000,000              | 800,000                |
| Financial assets at fair value through other comprehensive income | 2,173,874              | 2,072,507              |
| Loans and advances  | 1,509,172              | 156,136                |
| <b>Total non-current assets</b>                                   | <b>6,528,864</b>       | <b>4,744,797</b>       |
| <b>Current Assets</b>   |                        |                        |
| Subordinated loans to subsidiaries                                | 431,402                | 634,010                |
| Loans and advances  | 817,323                | 573,077                |
| Accounts receivable   | –                      | 19                     |
| Other receivables and prepayments                                 | 209,485                | 154,371                |
| Receivable from reverse repurchase agreements                     | 110,377                | –                      |
| Amount due from the ultimate holding company                      | 1,804                  | 3,405                  |
| Amounts due from subsidiaries                                     | 2,198,875              | 1,142,672              |
| Financial assets at fair value through other comprehensive income | 942,618                | –                      |
| Financial assets at fair value through profit or loss             | 3,680,754              | 3,523,775              |
| Derivative financial assets                                       | 2,195                  | 5,306                  |
| Cash and bank balances  | 116,306                | 22,311                 |
| <b>Total current assets</b>                                       | <b>8,511,139</b>       | <b>6,058,946</b>       |
| <b>Total assets</b>   | <b>15,040,003</b>      | <b>10,803,743</b>      |
| <b>Equity and liabilities</b>                                     |                        |                        |
| <b>Equity attributable to shareholders of the Company</b>         |                        |                        |
| Share capital   | 3,909,555              | 3,909,555              |
| Retained earnings   | 627,443                | 588,901                |
| Revaluation reserve   | (91,365)               | (165,720)              |
| <b>Total equity</b>   | <b>4,445,633</b>       | <b>4,332,736</b>       |



## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

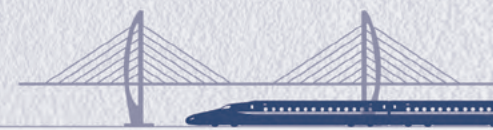
## 42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

|  | 31/12/2019<br>HK\$'000 | 31/12/2018<br>HK\$'000 |
|--|------------------------|------------------------|
| <b>Non-current Liabilities</b>               |                        |                        |
| Borrowings                                   | 4,964,230              | 4,988,200              |
| Lease liabilities                            | 17,265                 | –                      |
| <b>Total non-current liabilities</b>         | <b>4,981,495</b>       | <b>4,988,200</b>       |
| <b>Current Liabilities</b>                   |                        |                        |
| Borrowings                                   | 3,216,467              | 285,430                |
| Provision for staff costs                    | 100,795                | 77,903                 |
| Other payables and accrued expenses          | 20,129                 | 69,136                 |
| Contract liabilities                         | 37,567                 | 1,665                  |
| Lease liabilities                            | 32,377                 | –                      |
| Amounts due to subsidiaries                  | 2,204,850              | 1,043,384              |
| Derivative financial liabilities             | 690                    | 5,289                  |
| <b>Total current liabilities</b>             | <b>5,612,875</b>       | <b>1,482,807</b>       |
| <b>Total liabilities</b>                     | <b>10,594,370</b>      | <b>6,471,007</b>       |
| <b>Total equity and liabilities</b>          | <b>15,040,003</b>      | <b>10,803,743</b>      |
| <b>Net current assets</b>                    | <b>2,898,264</b>       | <b>4,576,139</b>       |
| <b>Total assets less current liabilities</b> | <b>9,427,128</b>       | <b>9,320,936</b>       |

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 25 March 2020 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 2019

## 43. RESERVES OF THE COMPANY

|   | Retained<br>earnings<br>HK\$'000 | Revaluation<br>reserve<br>HK\$'000 |
|---|----------------------------------|------------------------------------|
| <b>At 1 January 2018</b>                              | 470,010                          | 9,467                              |
| Impact on initial application of HKFRS 9              | <u>5,130</u>                     | <u>(11,200)</u>                    |
| <b>Adjusted balance at 1 January 2018</b>             | <u>475,140</u>                   | <u>(1,733)</u>                     |
| Profit for the year                                   | 338,527                          | –                                  |
| Other comprehensive loss for the year                 | <u>(6,015)</u>                   | <u>(163,987)</u>                   |
| <b>Total comprehensive income/(loss) for the year</b> | <u>332,512</u>                   | <u>(163,987)</u>                   |
| Final dividend for 2017                               | <u>(218,751)</u>                 | <u>–</u>                           |
| <b>At 31 December 2018</b>                            | <u>588,901</u>                   | <u>(165,720)</u>                   |
| <b>At 1 January 2019</b>                              | <b>588,901</b>                   | <b>(165,720)</b>                   |
| Impact on initial application of HKFRS 16             | <u>(2,551)</u>                   | <u>–</u>                           |
| <b>Adjusted balance at 1 January 2019</b>             | <u>586,350</u>                   | <u>(165,720)</u>                   |
| Profit for the year                                   | <b>278,443</b>                   | –                                  |
| Other comprehensive (loss)/income for the year        | <u>(18,599)</u>                  | <u>74,355</u>                      |
| <b>Total comprehensive income for the year</b>        | <u>259,844</u>                   | <u>74,355</u>                      |
| Final dividend for 2018                               | <u>(218,751)</u>                 | <u>–</u>                           |
| <b>At 31 December 2019</b>                            | <u>627,443</u>                   | <u>(91,365)</u>                    |

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 44. 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")

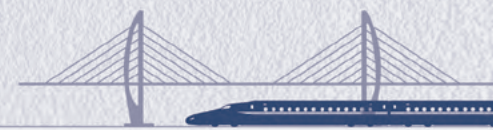
|                                      | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|--------------------------------------|------------------|------------------|
| Segregated client accounts with HKCC | <u>57,471</u>    | <u>42,427</u>    |

## (b) Segregated client accounts with SEHK Options Clearing House Limited ("SEOCH") in conjunction with its futures and options business

|                                       | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|---------------------------------------|------------------|------------------|
| Segregated client accounts with SEOCH | <u>63,886</u>    | <u>68,757</u>    |

## (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

|                                     | 2019<br>HK\$'000 | 2018<br>HK\$'000 |
|-------------------------------------|------------------|------------------|
| Segregated client accounts with AIs | <u>3,862,662</u> | <u>3,789,816</u> |



# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

## 45. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities

|  | HK\$'000                 |
|--|--------------------------|
| As at 1 January 2019                                 | 7,423,912                |
| Impact on initial application of HKFRS 16            | <u>143,190</u>           |
| Adjusted balance at 1 January 2019                   | 7,567,102                |
| Changes from financing cash flows:                   |                          |
| – Net drawdown of bank and other borrowings          | 2,428,867                |
| – Increase in obligation under repurchase agreements | 799,547                  |
| – Principal elements of lease payments               | (69,671)                 |
| Acquisition – new lease                              | 208                      |
| Interest expenses on lease liabilities               | 3,212                    |
| Foreign exchange adjustments                         | <u>(220)</u>             |
| As at 31 December 2019                               | <u><u>10,729,045</u></u> |

## 46. SUBSEQUENT EVENT

Profit distribution for 2019

On 25 March 2020, the Board of Directors proposed the 2019 final dividends of HK\$0.09 per share, amounting to HK\$246,095 thousand. The proposed profit distribution plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Impact of COVID-19

An outbreak of COVID-19 at the end of 2019 has spread to various countries and territories across the globe since early 2020. It caused upheaval in stock markets and disrupted business and economic activities around the world. However, the economic damage and the impact on GDP cannot be reasonably assessed at the time of this report. The Group will continue to pay close attention to the development of situation, evaluate and respond to its impact on the Group's financial position and operating results.

## 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 Guo Xin Asset Management”       | BOCOM Guo Xin Asset Management Company Limited* (交銀國信資產管理有限公司), a company established under the laws of the PRC with limited liability   |
| “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  |



|  |   |
|--|---|
| “BOCOM Science and Technology Innovation Equity Investment Fund” | BOCOM Science and Technology Innovation Equity Investment Fund (Shanghai) Partnership Enterprise (Limited Partnership)* 交銀科創股權投資基金(上海)合夥企業(有限合夥), a limited partnership established under the laws of the PRC       |
| “Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund”     | Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund Partnership Enterprise (Limited Partnership)* 重慶兩江新區博科股權投資基金合夥企業(有限合夥), a limited partnership established under the laws of the PRC                      |
| “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”                                      | the 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”  | the Federal Reserve System of the US  |
| “Framework Agreements”   | the Property Leasing Framework Agreement, the Derivatives Transactions Framework Agreement and the Financial Services Framework Agreement   |
| “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   |

## Glossary

|                                      |   |
|--------------------------------------|---|
| "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"                         | the 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 the Macau Special Administrative Region of the PRC   |
| "PRC" or "China"                     | the People's Republic of China  |
| "Prospectus"                         | the prospectus of the Company dated 5 May 2017  |
| "QFII"                               | Qualified Foreign Institutional Investor  |
| "RMB"                                | Renminbi, the lawful currency of the PRC  |
| "RQFII"                              | RMB Qualified Foreign Institutional Investor  |
| "SFC"                                | the 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 Bole"                      | Shanghai Bole Investment Company Limited* (上海博樂投資有限公司), a company established under the laws of the PRC with limited liability                              |
| "Shanghai Boli"                      | Shanghai Boli Investment Company Limited* (上海博禮投資有限公司), a company established under the laws of the PRC with limited liability                              |
| "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 2019   |
| "YoY"                                | year-on-year  |



[www.bocomgroup.com](http://www.bocomgroup.com)

