



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

2020

ANNUAL REPORT





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 seized cross-border business opportunities from the stock connect programs and took 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 financial leasing, fund, trust, 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

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

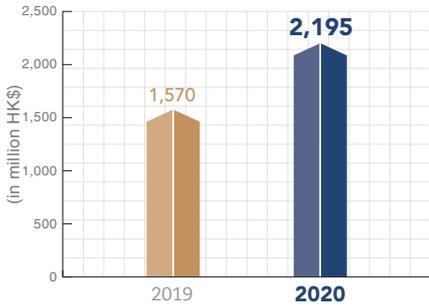
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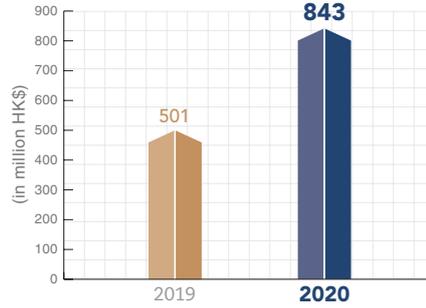


# Financial Highlights

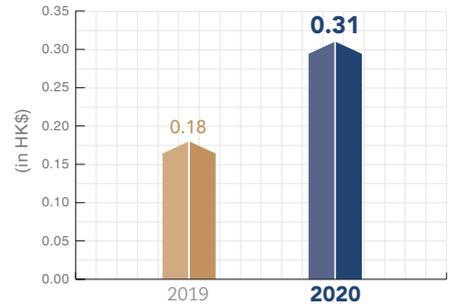
Revenue and other income



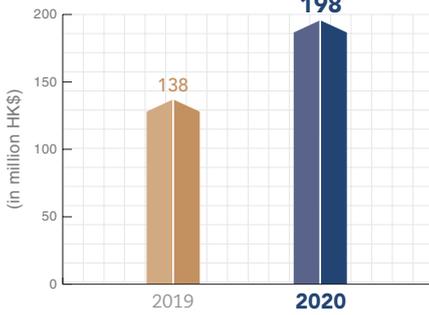
Profit attributable to Shareholders of the Company



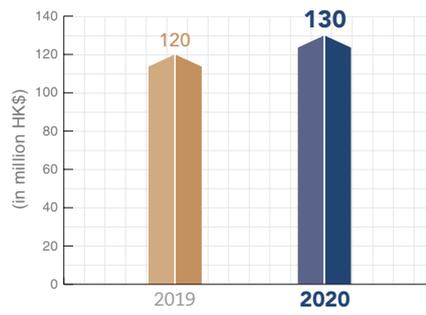
Basic/Diluted earnings per Share



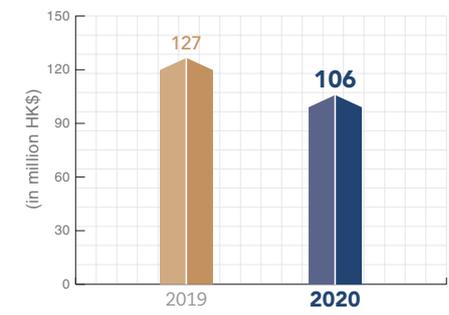
Brokerage



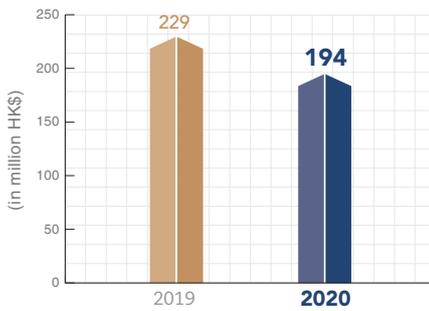
Corporate finance and underwriting



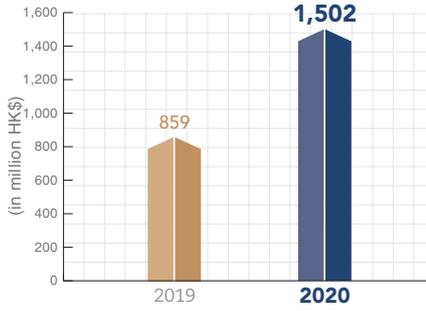
Asset management and advisory



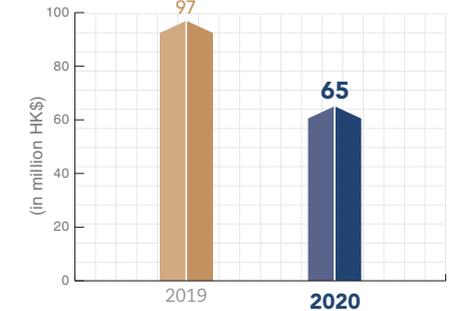
Margin financing



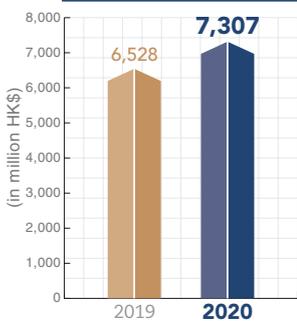
Investment and loans



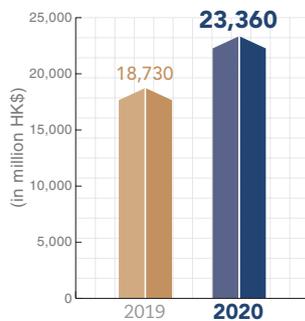
Others



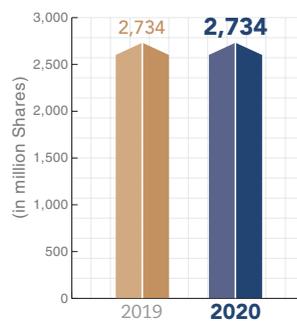
Shareholders' equity attributable to Shareholders of the Company



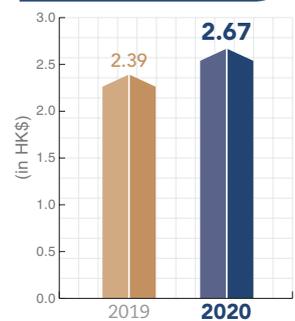
Total assets



Number of Shares in issue



Net asset value per Share attributable to Shareholders of the Company



# Financial Summary

	For the year ended 31 December				
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
<b>RESULTS</b>					
Revenue and other income	1,052,973	1,220,533	1,484,259	1,570,242	<b>2,194,795</b>
Profit attributable to Shareholders of the Company	350,609	403,907	407,605	500,567	<b>843,155</b>
Retained earnings carried forward	1,995,407	2,399,314	2,520,038	2,778,837	<b>3,419,833</b>

	At 31 December				
	2016 HK\$'000	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000
<b>ASSETS AND LIABILITIES</b>					
Current assets	6,890,148	12,886,591	11,072,629	13,249,561	<b>19,236,254</b>
Total assets	10,179,283	17,968,322	14,461,839	18,730,229	<b>23,359,859</b>
Current liabilities	4,896,640	11,608,077	1,721,285	5,864,255	<b>14,159,859</b>
Total liabilities	6,193,165	11,608,207	8,187,631	12,102,419	<b>15,575,921</b>

The results of the Group and its assets and liabilities for the financial year ended 31 December 2016 was extracted from the Prospectus of the Company dated 5 May 2017.

# Chairman's Statement



**Dear Shareholders,**

2020 has been an extraordinary year. Despite all this year's upheaval, the Group delivered strong financial performance and was committed to mitigating the impact of epidemic. All these have been achieved under the leadership of the Board and the efforts of our employees. We demonstrated the core values that have always guided us: to advance sustainable growth, make steady progress and finally standing out as a wealth management and financial services institution with global influence and leading position in the region, displaying a strong development momentum.

## **MACRO ENVIRONMENT AND MARKET REVIEW**

In 2020, the once-in-a-century COVID-19 pandemic was hitting the world economy saddled with the record level economic contraction in history. Developed countries successively turned to more unconventional strategies to shore up their reeling economies. The Federal Reserve even unveiled unprecedented unlimited quantitative easing. Commodities, emerging markets, and Chinese assets typically performed outstanding while the US dollar is on a depreciation path. The rapid appreciation of RMB, the rise of cyclical traditional industries and the extraordinary performance of value stocks indicate the beginning of the return of value investment.

Facing internal and external headwinds and an uncertain economic environment, China implemented a series of intensive rescue policies, including tax cuts, fee reduction and fiscal spending, which gave full play to the countercyclical adjustment function of macro policies and provided a solid foundation for stable economic recovery. In the first three quarters, YoY GDP growth showed a V-shaped reversal trend, leading a global recovery. A variety of monetary policy stimulus directly to the real economy have achieved remarkable results. The pace of easing has slowed down in the second half of the year, as the economy gradually recovered. Emergency fiscal stimulus policies were gradually pulled back and monetary policies have been tightened marginally.



While the pandemic had a significant impact on the real economy, it has accelerated the digital transformation of China's economy. The emerging technologies and related industries, including online education, internet healthcare, live streaming e-commerce, remote office have achieved vigorous development in 2020. At the same time, China accelerated the opening up of its market and deepened the interconnection of its capital markets. The increased inclusion of A-shares in the weighting of various international indices indicated the increasing attention from foreign investors toward the A-share market. Cancellation of the investment quota limitations of QFII/RQFII also further expanded the ways for foreign investors to enter the Chinese market and attracted more incremental allocation funds.

Under the haze of the COVID-19 pandemic, insufficient domestic and foreign demand led to a serious contraction of Hong Kong's economy in 2020. Export, consumption and investment were stagnant, while the unemployment rate was rising. Thanks to the improvement of the external environment driven by the economic recovery after the stabilisation of the pandemic situation in Mainland China, GDP bottomed out in the third quarter. Hong Kong's financial system remained stable and the market operated in a smooth and orderly manner. Under trade tensions between China and the United States, mainland-based enterprises have chosen to list in Hong Kong, setting off the trend of returning China concept stocks and attracting continuous inflow of market funds. The stock prices of the new economy sector, represented by examples such as Tencent, Alibaba and Meituan, rose, while the performance of the Hang Seng Index, which mainly covers traditional industries, was inferior to that of A-shares and US shares, and recorded a decrease for the whole year.

## BUSINESS REVIEW AND ANALYSIS

In 2020, amid a complex and challenging external environment, the Group has overcome the negative impacts brought by the year-long COVID-19 pandemic and several significant market turbulences. By adhering to the business model of a balanced and synergetic development of asset business and licensed business and the risk appetite of "prudence, stability and compliance", and adopting the strategy of "dual geography, dual industry focus, dual technology investment (地域雙三角、行業雙聚焦、轉型雙科技)", the Group continued to optimise the income structure of its business diversification with steady growth in major financial indicators, realising increasing benefits from its high-quality and large-scale development. During the Year, the market shares of the Group in the investment banking sector increased substantially, showcasing positive results from its efforts in industry development. The Group's securities business outperformed the market, with the global integrated trading platform being



gradually enhanced. Continuous efforts have been made to optimise the portfolio structure of our offshore asset management and fixed income business, with the performance of the Hong Kong stocks public fund ranking first among comparable products in the Hong Kong market. The onshore Renminbi private equity fund management business with a focus on a series of BOCOM science and technology innovation funds benefitted from its first-mover advantage, while the investment and financing segment further facilitated the shift towards new economy and new energies, which have become new growth drivers for our businesses. We have developed our distinctive macro strategy and new frontier research, which resulted in greater synergy between our investment and research capabilities. The middle and back office departments continued to enhance overall risk management and internal control to maintain a high standard of corporate governance, providing solid foundation for the healthy and sustainable development of the Group.

During the Year, the Group won over 20 domestic and international major awards, including "Best Chinese Securities Firm", "Best Financial Institution of the Year", "'Most Brand Valuable Brand' of the Top 100 Hong Kong Stocks", "Best Series of Wealth Management Platform Award", "Asset Benchmark Research Top Investment Houses in Asian G3 Bonds for 2020: Hong Kong (Highly Commended)", "Top 5 Best Return Institution of the Year", "Private Equity Institution of the Year", "Innovation Wealth Management Institution of the Year", and "Best Venture Capital Institution in Big Data and Artificial Intelligence Industries". In addition, the Group was reaffirmed "A" and "A3" ratings by Fitch and Moody's, two major international credit rating agencies, respectively, therefore continuing to hold the highest credit ratings among the Chinese securities firms in Hong Kong, which demonstrated the recognition of the Group's robust financial structure and development prospects by the capital market, clients and investors.

With the combined efforts of all colleagues, the Group grew solidly in its operation results. In 2020, the revenue and other income of the Group amounted to HK\$2,194.8 million, representing an increase of 39.8% YoY. The profit amounted to HK\$851.2 million, which represented an increase of 70.0% YoY, hitting a new record high. These achievements were hard-earned under the current environment. On behalf of the Board, I also would like to take this opportunity to express our gratitude towards all Shareholders, customers and people from all walks of life for their continuous support and trust over the years and towards all staff for their commitment and dedication.



## OUTLOOK AND STRATEGY

If the inoculation of the COVID-19 vaccine progresses smoothly in 2021 and achieves large-scale usage in major countries, the global economy is expected to gradually recover. We expect that in 2021, major central banks will continue to maintain low interest rate policies to stimulate the economy until it fully recovers or inflation reaches their target level. Meanwhile, central banks will adjust their asset purchase decisions and structure in real time according to the progress of economic recovery, so as to better support economic development.

In 2021, China's economy is expected to continue its growth advantage of 2020 as credit and M2 continue to grow steadily and real estate investment resumes after digesting the "Three Red Lines" policy. Consumer confidence is rebounding from historical low ebb, demand is improving, and inflationary pressures are gradually rising. The global economic recovery, led by China, is expected to last at least through the first half of 2021. With the Biden administration, the U.S. stimulus policy is likely to exceed expectations. The recovery of China and the United States will be greater than that in 2020, and the global economic and trade order will be reconstructed. The United States is expected to return to its traditional foreign policy. However, the trade tensions between China and the United States probably will not change. Chinese concept stocks are seeking Hong Kong as the first choice for their secondary listing, and the wave of returning Chinese concept stocks will further promote optimisation of the structure of Hong Kong's stock market. In the future, the Hong Kong market is expected to welcome more companies from China's new economy sector, driving the recovery of the overall valuation of Hong Kong's stock market.

As 2021 marks the first year of the "New Five-Year Plan" for the Group, we will continue to strive for steady progress by relying on our capability to maintain stable development amidst an uncertain external environment. Active efforts will be made to seize the opportunities arising from the national "dual circulation" new development pattern, major regional development strategies and the shift to new growth drivers, so as to continuously strengthen our core capabilities. By adopting a customer-first principle, focusing on value creation and adhering to the business strategy of "dual geography, dual industry focus, dual technology investment", we will strive to promote high-quality and large-scale development and make steady progress towards the strategic goals of building a wealth management financial service institution with global influence and regional market leadership, with an aim to create greater value for our customers and Shareholders.

**TAN Yueheng, JP**

*Chairman*

Hong Kong, 24 March 2021

# Management Discussion and Analysis

## BUSINESS REVIEW

As one of the earliest licensed securities firms with 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\$2,194.8 million, representing an increase of 39.8% when compared with HK\$1,570.2 million in 2019. The Group's profit was HK\$851.2 million, representing an increase of 70.0% when compared with HK\$500.6 million in 2019.

### Securities Brokerage and Margin Financing

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

To rise to the challenges driven by digital finance, we keep accelerating digital transformation and have continuously devoted considerable resources to iteratively update our digital and intelligent services, including online global trading platform, data management, cyber security and market monitoring systems. For instance in wealth management business, based on digitalised report systems, we have further explored the personalised search and data display function in multi-dimensions to the frontline sales on a real-time basis and strived to improve customer management efficiency and achieve precise marketing.



As a company providing “bespoke” services in the market, our well-experienced wealth management team is dedicated to, on the one hand, providing tailor-made solutions to meet clients’ needs, and, on the other hand, promoting popular financial products to grasp the market pulse for increasing customer activity and optimising customer, product and revenue structures. In 2020, based on our prediction of IPO market trends, we have aggressively expanded the IPO financing business, and the financing scale and the number of IPO orders both increased multiple times, and IPO commission income increased by more than 50%, on a YoY basis. Also, with the rapid expansion of IPO financing, we have successfully developed “Brokers’ Broker” business with small and medium-sized brokerage firms, a cooperative growth model with leading brokerage firms designing and building a complete and comprehensive product platform and uniting and supporting peer companies to grow together. Through unceasingly exploring new service and cooperation models such as “Brokers’ Broker”, “Stock-Bond Portfolio Financing”, interactive live webcast series, BOCOMI service apps and “Xingu Bao”, we are fostering our differentiated competitive advantage and creativity to provide customers with diversified premium cross-border wealth management services and products.

In 2020, our trading volume of Hong Kong stocks increased by around 60% as compared to last year, outperforming the market.

For the year ended 31 December 2020, our commission and fee income from the securities brokerage business was HK\$180.9 million, an increase of HK\$62.5 million or 52.8% as compared with 2019.

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

	Year ended 31 December			
	2020		2019	
	HK\$'million	%	HK\$'million	%
Hong Kong stocks	136.4	75.4	87.7	74.1
Non-Hong Kong stocks	21.4	11.8	7.7	6.5
Bonds	8.0	4.4	8.1	6.8
Others	15.1	8.4	14.9	12.6
	<u>180.9</u>	<u>100.0</u>	<u>118.4</u>	<u>100.0</u>

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, regulatory changes in the margin financing business, and the market volatility and the liquidity risk caused by unexpected capital flows, we have adopted structural adjustments to improve the margin financing risk management.

During 2020, 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 2020 was HK\$193.8 million, a decrease of HK\$34.8 million or 15.2% as compared with 2019.

## Management Discussion and Analysis

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

	31/12/2020	31/12/2019
Number of margin accounts	<b>8,969</b>	8,254
Balance of gross margin loans (HK\$'million)	<b>2,881.8</b>	2,774.9
Monthly average balance (HK\$'million)	<b>2,669.4</b>	3,421.9
Highest month end balance (HK\$'million)	<b>2,881.8</b>	3,814.3
Lowest month end balance (HK\$'million)	<b>2,434.4</b>	2,658.2
Margin value (HK\$'million) (Note 1)	<b>3,475.6</b>	2,789.8
Market value (HK\$'million) (Note 2)	<b>10,272.1</b>	11,563.5

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.

In 2020, there were a total of 154 new listings on the Stock Exchange (including the transfer of listing from GEM to Main Board). The number of new listings has decreased by 15.8% as compared with 2019. The aggregate amount of funds raised through IPOs was HK\$397.5 billion, an increase of 26.5% as compared with 2019.

In view that new economy will play a dominant role in the fund-raising market, we have devoted more resources in building up execution teams specialising in the technology, media and telecommunications, healthcare and biotechnology industries in order to capture the business opportunities of a new era. During the Year, we acted as a sponsor for 4 completed IPO projects and a global coordinator and/or bookrunner for 31 completed IPO projects. In respect of debt capital markets, we completed 63 debt issuance projects and successfully assisted corporations in raising USD25.9 billion in aggregate.

For the year ended 31 December 2020, our commission and fee income from corporate finance and underwriting services was HK\$130.4 million, an increase of HK\$10.3 million or 8.6% as compared to HK\$120.1 million in 2019.

## Asset Management and Advisory

We offer a full range of asset management products including both public and private funds, and discretionary management 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 high-quality 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 the improved investment and research capabilities, we seized the structural growth opportunities in capital markets. In 2020, the investment return of a mutual fund under our management ranked first among the 66 peers in Hong Kong market according to Bloomberg data.

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. BOCOM Science and Technology Innovation Equity Investment Fund, which was established under our Shanghai asset management platform, is the first bank-affiliated science and technology equity investment fund in China, with underlying investments aiming to be listed on the Science and Technology Innovation Board (the "STAR Market"). We serve as fund manager, leveraging on the resources of the BOCOM Group to provide high-quality technology and innovation companies with full-scale comprehensive financial services. As at 31 December 2020, BOCOM Science and Technology Innovation Equity Investment Fund has completed 14 equity investment projects, of which 4 are ready to be listed on the STAR Market in the near future. BOCOM Science and Technology Innovation Equity Investment Fund has almost completed its investment target, mainly distributed in the Yangtze River Delta region, focusing on the fields of biomedicine and information technology. To improve business influence, acting as fund manager, we set up Nanjing BOCOM Suyan & SOHO Equity Investment Partnership Enterprise (Limited Partnership)\* (南京交銀蘇鹽蘇豪股權投資合夥企業 (有限合夥)) in Jiangsu, BOCOM Dingji Science and Technology Innovation Equity Investment Fund (Shenzhen) Partnership Enterprise (Limited Partnership)\* (交銀鼎吉科創股權投資基金 (深圳) 合夥企業 (有限合夥)) in Guangdong, Qingdao BOCOM Haikong Science and Technology Innovation Equity Investment Partnership Enterprise (Limited Partnership)\* (青島交銀海控科創股權投資合夥企業 (有限合夥)) in Shandong, Jiaying Hengsheng Equity Investment Fund Partnership Enterprise (Limited Partnership)\* (嘉興恒昇股權投資基金合夥企業 (有限合夥)) in Zhejiang, Dong Feng BOCOM Yuan Jing Auto Industry Equity Investment Fund (Wuhan) Partnership Enterprise (Limited Partnership)\* (東風交銀轅憬汽車產業股權投資基金 (武漢) 合夥企業 (有限合夥)) in Hubei. In August 2020, BOCOM International (Shanghai) Science and Technology Investment Management Co., Ltd.\* (交銀國際 (上海) 科創投資管理有限公司) was incorporated through BOCOM International (Shanghai), a subsidiary of the Group, so as to further our private equity fund business development in Mainland China.

In 2020, we established four new QFLP funds under our asset management platform in Mainland China, among which, Hainan BOCOM International Science and Technology Innovation Shengxing Equity Investment Partnership (Limited Partnership)\* (海南交銀國際科創盛興股權投資合夥企業 (有限合夥)) became the first QFLP fund launched in Hainan Free Trade Port, opening up a new channel to facilitate cross-border investment and financing in Hainan. The Shenzhen asset management platform has preliminarily established the cross-border fund product layout featuring QFLP/QDIE funds, which further complements the Group's cross-border asset management platform for all asset classes.

## Management Discussion and Analysis

Diversified products are the building blocks of our asset management business. As at 31 December 2020, the total amount of AUM was approximately HK\$27,687.8 million, representing an increase of 0.9% from HK\$27,437.4 million as at 31 December 2019. For the year ended 31 December 2020, asset management and advisory fee income decreased by HK\$23.9 million or 19.0% to HK\$102.0 million, which comprised of management fee income of HK\$65.7 million and advisory fee income of HK\$36.3 million.

### Investment and Loans

Our investment and loans business comprise of private equity investment, structured financing and debt investments. We aim to achieve a balance between investment returns and tolerable risks.

For equity investments, we focus on investing in companies in the innovative technology, biotechnology, healthcare industries and other new economy industries that have clear plans for 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. For structured financing, we focus on structured finance of cross-border quality asset and debt-equity hybrid investments in enterprises with high growth potential. For debt investments, we prefer short-to-medium duration products with good credit standing and remarkable offshore premium.

Based on our investment objectives, we strive to achieve an optimal allocation among equity investments, structured financing and debt investments. Backed by high-quality underlying assets and tailor-made structures, we have mitigated market risks and strengthened collateral controls.

Despite the volatility of the fixed income market in 2020, our portfolio remained comparatively resilient during the market turmoil and we have actively seized new opportunities. For the year ended 31 December 2020, interest income from loans and advances, receivables from structured financing and financial assets at fair value through other comprehensive income was HK\$481.2 million, representing an increase of approximately 52.0% as compared to HK\$316.5 million in 2019. Proprietary trading income was HK\$987.5 million, an increase of HK\$480.0 million or 94.6% as compared to HK\$507.5 million in 2019.

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

	31/12/2020		31/12/2019	
	HK\$'million	%	HK\$'million	%
Fixed income securities	<b>10,292.7</b>	<b>79.7</b>	8,591.1	75.9
Bonds	<b>8,609.3</b>	<b>66.7</b>	6,545.2	57.8
Preference shares	<b>1,683.4</b>	<b>13.0</b>	1,992.5	17.6
REIT(s)	–	–	53.4	0.5
Equity investments	<b>453.2</b>	<b>3.5</b>	179.6	1.6
Equity-linked loan	–	–	443.1	3.9
Funds	<b>2,176.8</b>	<b>16.8</b>	2,106.0	18.6

## Research

Our research team focuses on market strategies, macroeconomics, key industries and companies and other fields in the global market, and provides independent and objective research support to institutional clients, the Group and internally within the Company. We provide comprehensive analysis and forecasting in respect of sector-and company-specific fundamentals. The team is highly recognised by institutional investors in Hong Kong, Mainland China and overseas markets. "Forecasts: Economics, Cycles and Market Bubbles", a book authored by Mr. HONG Hao, the head of our research department and chief strategist, was honoured as one of the "Top Ten Financial Influential Books of 2020" and was included in the FT Chinese annual business book list and the "Barron Weekly" autumn book list as the top entry and second entry respectively. In addition, multiple analysts won awards in the 2020 Thomson Reuters Global Analyst Selection.

In 2020, macro strategy research publications included a series of reports on macro view of industries and quantitative research, providing unique insights for the market. Our sector research team also focused on new economy, new technology, medical and health industries as key development directions, vigorously developed in-depth research on new industry themes, and established a "new frontier research centre", emphasising the output of cross-industry research perspectives, and covering market hotspots.

A total of 58 in-depth research reports were published in 2020, including genres such as quantitative strategy, specific focus topics and first coverage. Key themes included: "Impact of COVID-19 outbreak on the market and economy", "Analysis of the impact of the central bank's push of digital currency", "rationalisation of live-stream e-commerce", "Long-term competition and cooperation between e-commerce platforms and short video platforms", "New energy vehicles series analysis" and "Energy industry long-term vision series analysis".

As at 31 December 2020, our research team comprised more than 30 strategy and industry analysts and professional staff in Hong Kong, Beijing and Shanghai, and has completed 1,182 research reports, a 7% increase compared to 2019, covering 15 industries and over 150 stocks across new-economy and traditional sectors. Among Chinese securities firms in Hong Kong, our research reports ranked first in terms of the number of unique readers and second in terms of read volume on Bloomberg Terminal. Due to the impact of the epidemic, our team has expanded our online client services and developed diversified online roadshow events, and held over 130 online conferences.

In 2020, our research team further strengthened its strategic transformation to support the Group and the business of the whole Company, and continued to deep dive in the development direction of emerging industries and the new economy. Our research team collaborated with the Group's internal research functions to conduct in-depth research on industries that meet national strategies and market needs. At the same time, our research team also collaborated with the Company's investment teams and risk departments to provide valuation and risk prediction for projects, striving to achieve optimal returns on investment projects under the principle of ensuring that risks are controllable.

## FINANCIAL REVIEW

### Financial performance

For the year ended 31 December 2020, the Group's total revenue and other income was approximately HK\$2,194.8 million, representing an increase of approximately 39.8% over HK\$1,570.2 million in 2019.

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

	Year ended 31 December			
	2020		2019	
	HK\$'million	%	HK\$'million	%
Brokerage	197.8	9.0	138.4	8.8
Corporate finance and underwriting	130.4	5.9	120.1	7.6
Asset management and advisory	106.4	4.8	127.2	8.1
Margin financing	193.8	8.8	228.6	14.6
Investment and loans	1,501.6	68.5	859.2	54.7
Others	64.8	3.0	96.7	6.2
<b>Total</b>	<b>2,194.8</b>	<b>100.0</b>	<b>1,570.2</b>	<b>100.0</b>

The Group's profit for the year ended 31 December 2020 was approximately HK\$851.2 million, representing an increase of approximately 70.0% over HK\$500.6 million in 2019.

### Operating expenses

Operating expenses and finance costs for the year ended 31 December 2020 amounted to HK\$1,262.1 million (2019: HK\$1,065.2 million), an analysis of which is listed below:

	Year ended 31 December			
	2020		2019	
	HK\$'million	%	HK\$'million	%
Commission and brokerage expenses	56.6	4.5	36.6	3.4
Finance costs	279.6	22.2	355.6	33.4
Staff costs	402.0	31.9	374.4	35.2
Depreciation	83.3	6.6	78.1	7.3
Other operating expenses	178.3	14.1	171.3	16.1
Change in impairment allowance	262.3	20.7	49.2	4.6
<b>Total</b>	<b>1,262.1</b>	<b>100.0</b>	<b>1,065.2</b>	<b>100.0</b>

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

Depreciation increased slightly by 6.7%.

Other operating expenses increased slightly by 4.0% as a result of the general increase of repair and maintenance expenses of IT systems and other expenses, offsetting the decrease in travelling and related expenses.

Change in impairment allowance increased to HK\$262.3 million, representing the increase in provision for the Group's exposures as a result of the current environment under the requirements of HKFRS 9 Financial Instruments. The level of uncertainty and judgement for the calculation of impairment allowance has significantly increased as a result of the economic effects of the COVID-19 pandemic.

#### Liquidity, Financial Resources and Gearing Ratio

The Group's cash and bank balances as at 31 December 2020 increased by HK\$1,459.8 million to HK\$2,004.9 million (31 December 2019: HK\$545.1 million).

The Group's net current assets decreased by HK\$2,308.9 million to approximately HK\$5,076.4 million as at 31 December 2020 (31 December 2019: HK\$7,385.3 million). The current ratio, being the ratio of current assets to current liabilities, was approximately 1.4 times as at 31 December 2020 (31 December 2019: 2.3 times).

As at 31 December 2020, the Group had borrowings of HK\$12,703.5 million (31 December 2019: HK\$9,652.3 million) while the subordinated loans from the ultimate holding company amounted to HK\$1,000.0 million (31 December 2019: HK\$1,000.0 million).

As at 31 December 2020, the Group's gearing ratio was 176.0% (31 December 2019: 160.7%), as calculated by dividing total borrowings by total equity.

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

#### Capital Structure

The Group finances its working capital requirements by cash generated from 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 create an exposure for the Group. Thorough risk assessment and mitigation help to ensure these risks are well managed and effectively controlled. 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 to mitigate interest rate risk by diversification of assets and regular monitoring of risk exposure so as to quantify market exposure in duration terms.

Anticipating the LIBOR will likely to be phased out at the end of 2021, the Group has in depth assessed the overall impact on the business operations in the following key areas:

- quantification and monitoring of exposures to LIBOR contracts;
- impact assessment across businesses and functions; and
- a plan to review pricing model to reduce exposure to LIBOR contracts.

In view of the above, the management envisages that the abolishment of current LIBOR will have limited impact on the Group's interest rate exposures (both directly and indirectly). While there had been no significant impact on the Group's performance during the year, the management will continue to monitor the market development and take appropriate measures to mitigate the risks accordingly.

### ***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 having 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.

### ***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 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, associates 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 2020, there was no charge on Group assets (31 December 2019: Nil).

### Capital Commitments

As at 31 December 2020, the Group had no significant capital commitment.

### Employees and Remuneration Policies

As at 31 December 2020, the Group had a total of 310 employees. Total staff costs amounted to approximately HK\$402.0 million for the year ended 31 December 2020.

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 to 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 2020, the Group had no material contingent liabilities.

### 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 2020, the Group utilised approximately 99.8% 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 next year.

## Management Discussion and Analysis

An analysis of the application/intended application and utilisation of the net proceeds from the Listing as at 31 December 2020 is set out below:

Application/Intended application	Net proceeds from the Listing (HK\$'million)	Utilised amount as at 31/12/2019 (HK\$'million)	Utilised amount during the Year (HK\$'million)	Utilised amount as at 31/12/2020 (HK\$'million)	Unutilised amount as at 31/12/2020 (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	122.4	62.6	185.0	2.9
5. Attract and retain talent as well as optimising human resources structure	187.9	187.9	–	187.9	–
6. Working capital and general corporate purposes	187.9	187.9	–	187.9	–
Total	<u>1,879.2</u>	<u>1,813.7</u>	<u>62.6</u>	<u>1,876.3</u>	<u>2.9</u>

### Impact of COVID-19 Pandemic

Owing to the COVID-19 pandemic, we have implemented several measures including:

- Measures to maintain social distancing;
- Minimise face-to-face meeting by using conference calls or video conference;
- Measures of work-from-home arrangement and flexible working plans;
- Avoidance of unnecessary travel and outside meeting;
- Measures of access control to office with temperature screening;
- Quarantine measures for employees with contact with any confirmed case of COVID-19 and the requirement of coronavirus test at the cost of Company; and
- Provision of face masks, hand sanitisers and other hygiene supplies.

COVID-19 had a limited impact to our business, demonstrating the Group's thorough implementation of a forward-looking approach and effective mitigation actions. We have minimised travelling and entertainment events. Our operations remain stable by the extensive uses of information technology. The impact of the COVID-19 pandemic on our finances was minimal. We maintain a healthy liquidity position and sufficient working capital. The impairment allowance increases as a result of the impairment being calculated under expected credit losses model and impairment of credit-impaired assets under individual assessment. The COVID-19 pandemic has also made no significant impact on our cost control, funding and business plan.

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

TAN Yueheng (*Chairman*)  
MENG Yu (*Chief Executive Officer*)  
(*appointment effective from 1 December 2020*)  
CHENG Chuange (*Deputy Chief Executive Officer*)

### Non-executive Directors

WANG Yijun  
(*retirement effective from 19 June 2020*)  
LIN Zhihong  
SHOU Fugang  
PO Ying  
(*appointment effective from 19 June 2020*)

### Independent Non-executive Directors

TSE Yung Hoi  
MA Ning  
LIN Zhijun

## BOARD COMMITTEES

### Executive Committee

TAN Yueheng (*Chairman*)  
MENG Yu  
(*appointment effective from 1 December 2020*)  
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  
(*retirement effective from 19 June 2020*)  
PO Ying  
(*appointment effective from 19 June 2020*)  
TSE Yung Hoi  
MA Ning  
LIN Zhijun

## COMPANY SECRETARY

YI Li

## AUTHORISED REPRESENTATIVES

CHENG Chuange  
YI Li

## 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, JP**, aged 58, 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. He has served as the Chairman of the Company since July 2016 and was re-designated as an Executive Director of the Company in October 2016. He 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, the deputy general manager of CMB International Capital Corporation Limited from 1997 to 2002, a director of Great Wall Securities Limited from 1998 to 2002, the 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. He was the chairman of the Chinese Securities Association of Hong Kong from March 2015 to February 2019, and has been the permanent honorary chairman since February 2019. Mr. TAN has been appointed as a Justice of the Peace by the Hong Kong Government since October 2020, a director of the Chinese General Chamber of Commerce since November 2020, and a member of HKTDC Financial Services Advisory Committee starting from 1 April 2021.

**MENG Yu**, aged 52, is the Chief Executive Officer and an Executive Director of the Company. He was appointed as the Chief Executive Officer and an Executive Director of the Company in December 2020. He is also a director of various subsidiaries of the Company. Mr. MENG joined BOCOM in August 1995 and has held several positions in BOCOM, including the assistant to the general manager of the business department from 2007 to 2010, the deputy general manager of the business department from 2010 to 2011, the deputy president of the Guangdong Provincial branch from June 2011 to March 2014, and the deputy chief executive of the Hong Kong branch from March 2014 to November 2020. He served as an executive director and the deputy chief executive (alternate chief executive) of Bank of Communications (Hong Kong) Limited from April 2017 to November 2020.

Mr. MENG graduated from Wuhan University with a bachelor's degree in Economics in July 1992. He obtained a master's degree in Business Administration from Fudan University in July 1999.

**CHENG Chuang**, aged 56, is the Deputy Chief Executive Officer and an Executive Director of the Company. He joined the Group in July 2007, was appointed as the Deputy Chief Executive Officer in March 2010 and as a Director of the Company in June 2010, and was re-designated as an Executive Director of the Company in October 2016. He is also a director of various subsidiaries of the Company. Prior to joining the Group, Mr. CHEUNG was recognised as a lecturer by Wuhan University in October 1992 and subsequently 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, 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, and serving as a director of Concorde Securities Limited from December 2001, the deputy general manager from November 2003 and the vice president from February 2005.

Mr. CHENG graduated from Zhengzhou University 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. Mr. CHENG obtained the qualification of senior economist in November 1999 and has been the vice chairman of the Chinese Securities Association of Hong Kong since June 2019.

#### Non-executive Directors

**LIN Zhihong**, aged 52, is a Non-executive Director of the Company. She was appointed as a Director of the Company in November 2014 and was re-designated as a Non-executive Director of the Company in October 2016. Ms. LIN has been the bureau chief of the audit and supervision bureau of BOCOM since November 2020, the supervisor of Bank of Communications Financial Assets Investment Co., Ltd. since September 2020, and an employee supervisor of the board of supervisors of BOCOM since December 2020.

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 and served as the senior manager (budget management) of the financial budget department of BOCOM from December 2004 to August 2007, the deputy general manager of the financial budget department of BOCOM from August 2007 to July 2013, the general manager of the financial budget department (data and information management centre) of BOCOM from November 2013 to April 2019 and the general manager of financial services centre (business department) of BOCOM from May 2019 to September 2020.

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

**SHOU Fugang**, aged 59, is a Non-executive Director of the Company. He was appointed as a Director in August 2007 and was re-designated as a Non-executive Director of the Company in October 2016. Mr. SHOU 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 an 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 and served as 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 with a bachelor's degree in Political Economics in July 1984. He obtained 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.

**PO Ying**, aged 49, is a Non-executive Director of the Company. She was appointed as a Non-executive Director of the Company in June 2020. Ms. PO joined the BOCOM Group in July 1996. She has served as the general manager of the equity and investment management department (formerly known as strategic investment department) of BOCOM since January 2019. She also serves as a non-executive director of Bank of Communications Financial Leasing Co., Ltd. since March 2013 and BANCO BoCom BBM S.A. since October 2017 respectively, and the chairman of board of supervisors of Bank of Communications International Trust Co., Ltd since December 2020.

Ms. PO's prior major appointments in the BOCOM Group include the vice president of the Suzhou branch of BOCOM from December 2008 to June 2010, the deputy general manager of the financial budget department of BOCOM from June 2010 to June 2020 and concurrently the general manager of the information management centre of BOCOM from June 2011 to May 2015, and a non-executive director of Bank of Communications International Trust Co, Ltd. from March 2013 to December 2020.

Ms. PO obtained a bachelor's degree in Auditing as an accounting major in September 1993 and a master's degree in Economics as an accounting major in July 1996 respectively from Southwestern University of Finance and Economics. In November 2014, she obtained the National Accounting Leading Talent Certificate.

### Independent Non-executive Directors

**TSE Yung Hoi**, aged 68, is an Independent Non-executive Director of the Company. He was appointed as a Director of the Company in June 2014. Mr. TSE is also currently the chairman of BOCI-Prudential Asset Management Limited. He was 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, and the deputy chief executive officer of BOC International Holdings Limited from 2002 to 2012.

Mr. TSE is currently an independent non-executive director of Vico International Holdings Limited (stock code: 01621), China Tower Corporation Limited (stock code: 00788) and DTXS Silk Road Investment Holdings Company Limited (stock code: 00620), all of which are listed on the Stock Exchange. He was an independent non-executive director of HJ Capital (International) Holdings Company Limited (formerly known as "iOne Holdings Limited") (stock code: 00982) from July 2014 to July 2020, Huarong International Financial Holdings Limited (stock code: 00993) from October 2015 to June 2016, Guoan International Limited (stock code: 00143) from March 2016 to June 2020, Well Link Bank from June 2018 to May 2020 and Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited from June 2020 to October 2020, respectively, the first three of which are listed on the Stock Exchange.

Mr. TSE graduated from Fudan University with a bachelor's degree in English in July 1975. He was awarded the Bronze Bauhinia Star by the Hong Kong Government in July 2013. He is also the life honorary president of the Chinese Securities Association of Hong Kong, the Vice Chairman of the Chinese General Chamber of Commerce and a member of the 12th Chinese People's Political Consultative Conference Shanghai Committee.

**MA Ning**, aged 48, is an Independent Non-executive Director of the Company. He was appointed as a Director of the Company in October 2016. From August 1996 to July 2002, he worked at the People's Bank of China (head office) where he was involved in devising policies and regulating the non-bank financial institutions in the PRC. From August 2002 to April 2010, he held various positions with and served as a managing director of Goldman Sachs (Asia) L.L.C.. From May 2010 to June 2015, he held various positions with Beijing Gao Hua Securities Company Limited and served as the deputy general manager and managing director. He has served as a managing partner of Tibet Lingfeng Venture Investment Partnership since August 2015.

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 66, is an Independent Non-executive Director of the Company. He was appointed as a 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) and Dali Foods Group Company Limited (stock code: 3799), all of which are listed on the Stock Exchange. He was an independent non-executive director of Springland International Holdings Limited (withdrawal of listing on the Stock Exchange) from February 2008 to March 2020.

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

Mr. LIN obtained a master's degree in Economics (accounting) from Xiamen University in December 1982, a doctorate degree in Economics in December 1985, and 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 48, is a Deputy Chief Executive Officer of the Company and a member of the Executive Committee. She was appointed as a Deputy Chief Executive Officer of the Company and a member of the Executive Committee in July 2017. She 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, an executive director and head of the China sales department from 2007 to 2009, a managing director and head of the equity sales department from 2009 to 2013 and a managing director and the head of the institution and equity business from 2013 to 2015. Ms. XI was a 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 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 49, is a Deputy Chief Executive Officer of the Company and a member of the Executive Committee. He was appointed as a Deputy Chief Executive Officer of the Company and a member of the Executive Committee in July 2018. He is also a director of various subsidiaries of the Company. From 1994 to 2000, Mr. SU held various positions in the foreign exchange department, the credit management department and the marketing department of BOCOM (Guangzhou Branch). In 2001, he was the deputy general manager of the marketing department of BOCOM (Guangzhou Branch). From 2002 to 2007, he 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, he was the senior manager (Merger and Acquisition) of the investment management department of BOCOM. In 2010, he became a 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) 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 2020.

## 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 at 31 December 2020 and their particulars (including principal activities) are set out in Note 18 to the consolidated financial statements.

## BUSINESS REVIEW

An analysis of the Group's principal activities by operating segments for the Year is set out in Note 4 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 2020 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 107 to 108.

The Directors recommended the payment of a final dividend of HK\$0.16 per Share to the Shareholders whose names appear on the register of members of the Company on 7 July 2021. 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 14 July 2021.

## 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 24 June 2021 to 29 June 2021 (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 29 June 2021, 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 23 June 2021.

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

The register of members of the Company will be closed on 7 July 2021, 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 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 6 July 2021. Shares of the Company will be traded ex-dividend from 5 July 2021.

## 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 purchases attributable to the five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the Year.

## DISTRIBUTABLE RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in Note 41 to the consolidated financial statements and in the consolidated statement of changes in equity on page 111 of this annual report, respectively.

As at 31 December 2020, the Company's reserves available for distribution, calculated in accordance with the Companies Ordinance, amounted to HK\$573,795,000.

## DONATIONS

During the Year, the Group made charitable donations amounting to HK\$1,109,000.

## SHARE CAPITAL

Details of the Shares issued by the Company are set out in Note 34 to the consolidated financial statements for the year ended 31 December 2020.

## 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 2020.

## DIRECTORS

The Directors during the year ended 31 December 2020 and up to the date of this Report of the Directors are:

### Executive Directors

TAN Yueheng

MENG Yu (*appointment effective from 1 December 2020*)

CHENG Chuange

### Non-executive Directors

WANG Yijun (*retirement effective from 19 June 2020*)

LIN Zhihong

SHOU Fugang

PO Ying (*appointment effective from 19 June 2020*)

### Independent Non-executive Directors

TSE Yung Hoi

MA Ning

LIN Zhijun

Pursuant to the Articles of Association, Mr. TAN Yueheng, Mr. CHENG Chuange and Mr. SHOU Fugang will retire by rotation at the 2021 annual general meeting and 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. MENG Yu, 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, Ms. MA Yuan, Mr. CHANG Weijun, Mr. FU Yang, Mr. ZHAO Honghao, Mr. ZOU Chuantai, Mr. LIU Lei, Ms. TANG Yi, Ms. ZHANG Manli and Mr. LIU Linke.

## CHANGE OF INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

Mr. TAN Yueheng has been appointed as the chairman of board of directors of BOCOM International (Shanghai) Science and Technology Investment Management Co., Ltd.\* (交銀國際(上海)科創投資管理有限公司) with effect from 21 August 2020, a Justice of the Peace by the Hong Kong Government with effect from 1 October 2020, a director of The Chinese General Chamber of Commerce with effect from 1 November 2020, and a member of HKTDC Financial Services Advisory Committee with effect from 1 April 2021. He has ceased to be a director of BOCOM International Securities Limited, BOCOM International (Asia) Limited and BOCOM International Asset Management Limited since 10 December 2020.

Mr. MENG Yu has been appointed as a director of BOCOM International Securities Limited, BOCOM International (Asia) Limited and BOCOM International Asset Management Limited with effect from 10 December 2020.

Ms. LIN Zhihong has been appointed as the bureau chief of the audit and supervision bureau of BOCOM since 17 November 2020, the supervisor of Bank of Communications Financial Assets Investment Co., Ltd.\* (交銀金融資產投資有限公司) since 16 September 2020, and an employee supervisor of the board of supervisors of BOCOM since 22 December 2020. She has ceased to be the general manager of financial services centre (business department) of BOCOM since 29 September 2020.

Ms. PO Ying has been appointed as the chairman of the supervisory committee and has ceased to be a non-executive director of Bank of Communications International Trust Co., Ltd. (交銀國際信託有限公司) with effect from 7 December 2020.

Mr. TSE Yung Hoi has been appointed as the vice chairman of the Chinese General Chamber of Commerce with effect from 1 November 2020 and has ceased to be an independent non-executive director of Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited (withdrawal of listing on Stock Exchange) with effect from 5 October 2020.

Ms. XI Xuanhua has been appointed as a director of BOCOM International (Shanghai) Science and Technology Investment Management Co., Ltd.\* (交銀國際(上海)科創投資管理有限公司) and BOCOM Financial Technology Company Limited\* (交銀金融科技有限公司) with effect from 21 August 2020, a director of BOCOM International (Shenzhen) with effect from 10 November 2020, an executive director of Shanghai Bole with effect from 23 November 2020, an executive director of Nanjing Boyuan Equity Investment Co., Ltd.\* (南京博遠股權投資有限公司) with effect from 24 November 2020, and an executive director of Shanghai Boli with effect from 11 December 2020.

Mr. SU Fen has ceased to be a director of BOCOM International (Shenzhen) since 10 November 2020 and a director of Shenzhen Boqiang Investment Consulting Co., Ltd.\* (深圳博強投資諮詢有限公司) since 11 November 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 20 to 25 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.

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 at 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 (retired on 19 June 2020), Ms. LIN Zhihong, Mr. SHOU Fugang and Ms. PO Ying (appointed on 19 June 2020), 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 36 to the consolidated financial statements, respectively.

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

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

As at 31 December 2020, 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	170,000	0.00	0.00
		A shares	140,000	0.00	0.00
SHOU Fugang	Beneficial owner	H shares	85,000	0.00	0.00
		A shares	80,000	0.00	0.00
LIN Zhihong	Beneficial owner	A shares	30,000	0.00	0.00
PO Ying	Beneficial owner	A shares	65,000	0.00	0.00
MENG Yu	Beneficial owner	A shares	45,000	0.00	0.00

Save as disclosed above, as at 31 December 2020, none of the Directors or Chief Executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

For the year ended 31 December 2020, 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 2020, 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/ Short position	Total number of Shares held	Approximate percentage to the total number of issued Shares of the Company (%)
BOCOM	Interest in a controlled corporation, beneficiary of trust <sup>(1)</sup>	Long position	2,000,000,000	73.14
BOCOM Nominee	Interest in a controlled corporation, 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 2020, 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 2020 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 2020 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 2020:

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

On 27 March 2020, Shanghai Boli, a wholly-owned subsidiary of the Company, and Shenzhen Dingji Investment Development Company Limited\* 深圳鼎吉投資發展有限公司 (“Shenzhen Dingji”), as general partners, entered into a partnership agreement with BOCOM Science and Technology Innovation Equity Investment Fund, Nanchang Municipal Public Overseas Investment Management Company Limited\* 南昌市政公用海外投資管理有限公司 and Shenzhen Fenqile Trading Co., Ltd.\* 深圳分期樂貿易有限公司, as limited partners, in relation to the formation of the BOCOM Dingji Science and Technology Innovation Equity Investment Fund.

Pursuant to the partnership agreement, the total capital contribution by all partners to the partnership shall be RMB100 million, of which each of Shanghai Boli and BOCOM Science and Technology Innovation Equity Investment Fund shall contribute RMB1 million and RMB39 million, respectively. The partners have agreed to appoint BOCOM International (Shanghai) to provide investment and management consulting services to the partnership.

The purpose of the partnership is to carry on the business of investing to achieve satisfactory return to all partners primarily through direct or indirect investments in equity, quasi-equity or engagement in equity investment related activities.

The partnership shall have a term of ten years from the date the partnership is established unless wound up or dissolved sooner in accordance with the provisions of the partnership agreement. The investment period of the partnership shall be for a period of three years and the management and exit period shall be for a period of two years following the lapse of the investment period. The management and exit period may be extended twice by the general partners in their absolute discretion for one additional year each time.

All the distributable proceeds attributable to the partnership shall be distributed 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 partnership as at the date of such distribution;
- (ii) 100% to each partner until each partner has received an amount equal to 8% of its aggregate paid-in capital contribution to the partnership calculated based on the number of days of its investment as specified in the partnership agreement; and
- (iii) 80% to all partners in proportion to their aggregate paid-in capital contribution to the partnership and 20% to Shenzhen Dingji and BOCOM International (Shanghai) in the manner as specified in the partnership agreement.

(b) Amendments to Certain Terms of the Partnership Agreement in relation to BOCOM Science and Technology Innovation Equity Investment Fund

On 11 August 2020, Shanghai Boli, as general partner, entered into a supplemental agreement (the "Supplemental Agreement") with BOCOM Guo Xin Asset Management, Ocean Holding, Oriental Investment, Yin Dao Fund, Changxing Financial and Zhong Ting Investment, as limited partners, to amend certain terms of the partnership agreement in relation to BOCOM Science and Technology Innovation Equity Investment Fund dated 23 December 2019. The Supplemental Agreement amended certain terms of the partnership agreement, including but not limited to Changxing Financial and Zhong Ting Investment being added as limited partners to the partnership, and the total capital contribution to the partnership being increased to RMB380 million, of which Changxing Financial and Zhong Ting Investment shall contribute RMB50 million and RMB5 million respectively. The contribution to the partnership by Shanghai Boli, BOCOM Guo Xin Asset Management, Ocean Holding, Oriental Investment and Yin Dao Fund remained unchanged.

(c) Formation of the Jiaxing Hengsheng Equity Investment Fund

On 1 September 2020, Shanghai Bole, a wholly-owned subsidiary of the Company, as general partner, entered into a partnership agreement with BOCOM Science and Technology Innovation Equity Investment Fund, Zhongshui Huijin, Ms. Yu Ting, Mr. Liu Ying Jie, Mr. Hu Liang and Mr. Li Peng, as limited partners, in relation to the formation of the Jiaxing Hengsheng Equity Investment Fund.

Pursuant to the partnership agreement, the total capital contribution by all partners to the partnership shall be RMB20.15 million, of which each of Shanghai Bole and BOCOM Science and Technology Innovation Equity Investment Fund shall contribute RMB1 million and RMB14 million, respectively. The partners have agreed to appoint BOCOM International (Shanghai) to manage the affairs of the partnership.

The purpose of the partnership is to carry on the business of project investment to achieve maximum return to all partners primarily through acquiring, holding and disposing of equity interests in target companies.

The partnership, as a private equity fund for the purpose of project investment, shall have a term of five years. Shanghai Bole, in its sole direction, may pursuant to the investment needs of the projects, extend the term of the partnership twice, each for an additional year. The investment period shall commence on the first closing date and end on the first anniversary thereof whereas the management and exit period shall commence upon the lapse of the investment period and continue up to the expiration of the term of the partnership.

All the distributable proceeds attributable to the Jiaxing Hengsheng Equity Investment Fund shall be distributed 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 partnership as at the date of such distribution;
- (ii) 100% to each partner until each Partner has received an amount equal to 8% per annum of its aggregate paid-in capital contribution to the partnership calculated based on the number of days as specified in the partnership agreement; and
- (iii) 100% to BOCOM Science and Technology Innovation Equity Investment Fund, Mr. Liu Ying Jie, Mr. Hu Liang, Mr. Li Peng and Shanghai Bole in proportion to their aggregate paid-in capital contribution to the partnership and in respect of the portion attributable to Zhongshui Huijin and Ms. Yu Ting, it shall be split between Zhongshui Huijin and Ms. Yu Ting (in proportion to such partners' aggregate paid-in capital contribution to the partnership) and BOCOM International (Shanghai) at the ratio of 80:20.

BOCOM holds approximately 73.14% of the issued Shares and is a connected person of the Company. BOCOM, through its subsidiary, BOCOM Guo Xin Asset Management, holds more than 10% of the partnership interests in BOCOM Science and Technology Innovation Equity Investment Fund. BOCOM Guo Xin Asset Management is an associate of BOCOM, BOCOM Science and Technology Innovation Equity Investment Fund is a connected subsidiary of the Company and hence they are the connected persons of the Company. As such, the formation of BOCOM Dingji Science and Technology Innovation Equity Investment Fund, the amendments to certain terms of the partnership agreement in relation to BOCOM Science and Technology Innovation Equity Investment Fund (constituting a material change) and the formation of the Jiaxing Hengsheng Equity Investment Fund constituted connected transactions of the Company under the Listing Rules.

(d) **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 transactions represent a good investment opportunity for the Group to diversify the Group's investment portfolio and generate stable income for the Group.

Further, the admission of two new limited partners, namely Changxing Financial and Zhong Ting Investment, into the BOCOM Science and Technology Innovation Equity Investment Fund, not only provided the partnership with more funds to make investments to achieve satisfactory return to all partners, it also enhanced the confidence of potential investors in participating in the investment of the partnership and diversified the risk of the Group with respect to its investment in the partnership.

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

(retired on 19 June 2020), Ms. LIN Zhihong, Mr. SHOU Fugang and Ms. PO Ying (appointed on 19 June 2020) 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 2020:

### (a) Financial Services Framework Agreement

The Company entered into a financial services framework agreement (the "Financial Services Framework Agreement") with BOCOM 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 and shall continue up to and including 31 December 2019. The Financial Services Framework Agreement shall be renewed automatically for successive periods of three years thereafter, subject to compliance with the then applicable requirements of the Listing Rules. As the Company intends to continue to enter into transactions of similar nature after 31 December 2019, the automatic renewal of Financial Services Framework Agreement for three years ending 31 December 2022 was approved by the Board on 26 March 2019 and approved by the independent Shareholders at the extraordinary general meeting of the Company held on 14 June 2019.

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.

The Financial Services Framework Agreement expires on 31 December 2022 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 2020 and the respective actual amounts received/paid in 2020 are as follows:

	Annual cap for the year ended 31 December 2020 (HK\$ million)	Actual amount for the year ended 31 December 2020
Revenue received by the Group from the BOCOM Group	183	45.6
Fees and commissions paid by the Group to the BOCOM Group	37.8	10.2

#### (b) Derivatives Transactions Framework Agreement

The Company entered into a derivatives transactions framework agreement (the "Derivatives Transactions Framework Agreement") with BOCOM 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 and shall continue up to and including 31 December 2019. The Derivatives Transactions Framework Agreement shall be renewed automatically for successive periods of three years thereafter, subject to compliance with the then applicable requirements of the Listing Rules. As Company intends to continue to enter into transactions of similar nature after 31 December 2019, the automatic renewal of Derivatives Transactions Framework Agreement for three years ending 31 December 2022 was approved by the Board on 26 March 2019 and approved by the independent Shareholders at the extraordinary general meeting of the Company held on 19 June 2020. The derivatives transactions include commodity derivatives transactions with the BOCOM Group at specified prices and terms at the over-the-counter market and at an offshore commodity futures exchange on substantially similar prices with an insignificant spread and on otherwise identical commercial terms but in the opposite direction.

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

The Derivatives Transactions Framework Agreement expires on 31 December 2022 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 2020 and the respective actual amounts received/paid in 2020 are as follows:

	Annual cap for the year ended 31 December 2020 <sup>Note 2</sup> (HK\$ million)	Actual amount for the year ended 31 December 2020
Trading gains or losses to the Group <sup>Note 1</sup>	400	192.0
Maximum fair value recorded as financial assets	400	71.0
Maximum fair value recorded as financial liabilities	400	25.3

Notes:

1. 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).
2. The extraordinary general meeting of the Company held on 19 June 2020 approved the revision of annual caps for the Derivatives Transactions Framework Agreement.

### (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 and shall continue up to and including 31 December 2019. The Property Leasing Framework Agreement shall be renewed automatically for successive periods of three years thereafter, subject to compliance with the then applicable requirements of the Listing Rules. As Company intends to continue to enter

into transactions of similar nature after 31 December 2019, the automatic renewal of Property Leasing Framework Agreement for three years ending 31 December 2022 was approved by the Board on 26 March 2019.

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

The Property Leasing Framework Agreement expires on 31 December 2022 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable provisions of the Listing Rules, unless terminated earlier by not less than six months' prior written notice or otherwise in accordance with the terms of the Property Leasing Framework Agreement.

The maximum amount of the rental payable by the Group to the BOCOM Group for the lease of properties from the BOCOM Group for the year ended 31 December 2020 and the actual amount paid in 2020 is as follows:

	Annual cap for the year ended 31 December 2020 (HK\$ million)	Actual amount for the year ended 31 December 2020
Rental paid by the Group to the BOCOM Group	11.4	10.0

#### (d) Financial Technology Services Framework Agreement

The Company entered into a financial technology services framework agreement (the "Financial Technology Services Framework Agreement") on 1 December 2020 with BOCOM to govern the existing and future provision of financial technology services between the Group and the BOCOM Group with effect from 24 December 2020.

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

- i. computer software development, information system operation and maintenance services and information system integration services; and
- ii. information system consultancy services.

The Financial Technology Services Framework Agreement provides that the provision of financial technology services by the Group to 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 Group to independent third parties for similar or comparable financial technology transactions, (v) in accordance with the specified pricing policies and (vi) in compliance with, among other things, the Listing Rules and applicable laws and regulations.

The Financial Technology Services Framework Agreement expires on 31 December 2022 and is automatically renewable for successive periods of three years thereafter, subject to compliance with the then applicable requirements 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 Technology Services Framework Agreement.

The annual caps in respect of the transactions under the Financial Technology Services Framework Agreement for the year ended 31 December 2020 and the respective actual amounts received in 2020 are as follows:

	Annual cap for the year ended 31 December 2020 <sup>Note</sup> (RMB million)	Actual amount for the year ended 31 December 2020
Computer software development, information system operation and maintenance services and information system integration services	90	–
Information system consultancy services	10	–

Note:

The proposed annual caps for 2020 reflect the expected transaction amount for the period from 24 December 2020 to 31 December 2020 (both dates inclusive).

### 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 36 to the consolidated financial statements constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules and the Company has complied with the applicable disclosure requirements in accordance with Chapter 14A of the Listing Rules in relation to the connected transactions and continuing connected transactions conducted during the year ended 31 December 2020.

## ENVIRONMENTAL AND SOCIAL MATTERS

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, the Company has formulated the Administrative Measures for Environmental, Social and Governance Task Force, which aims to clarify the ESG Task Force structure, and specify the responsibilities of the Task Force members and reporting procedures for sustainable development work. Meanwhile, the Group actively promotes green office tips to achieve energy and resource savings and carried out environmental protection measures including saving paper, saving electricity, reasonable use of vehicles, support of green finance development and so on.

The Group believes that talent is the driving force for corporate development and is also an important intellectual asset. 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. During

the year ended 31 December 2020 and up to the date of this annual report, the Group has not experienced any material labour disputes that have affected our operations and the relationship with employees has been satisfactory.

The Group offers comprehensive and integrated financial services and products that fulfill the various investment and wealth management needs of clients to create value for clients continuously. The Group has also 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. During the year ended 31 December 2020 and up to the date of this annual report, the Group has no material disputes between the clients and/or suppliers.

Details of 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 are set out in the "Corporate Social Responsibility Report" section of this annual report.

## 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 2020 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 2020 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.

## EVENT AFTER THE YEAR UNDER REVIEW

Please refer to the details set out in Note 44 to the consolidated financial statements.

## INDEPENDENT AUDITOR

The consolidated financial statements for the year ended 31 December 2020 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.

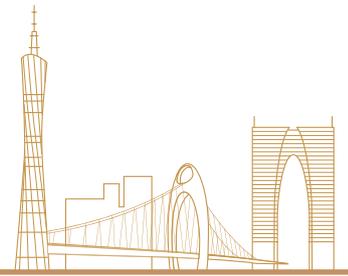
By order of the Board

**MENG Yu**

*Chief Executive Officer and Executive Director*

Hong Kong, 24 March 2021

# 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 2020, 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

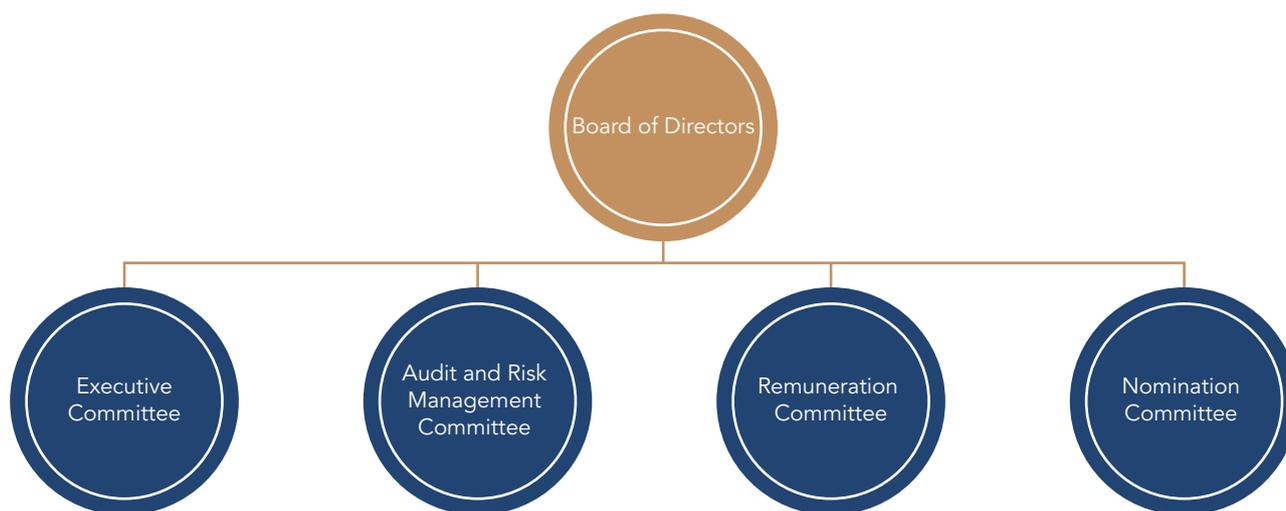
### THE BOARD

#### 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 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 operations 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.

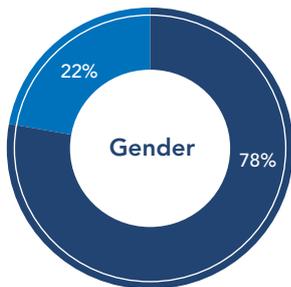


### Chairman and Chief Executive

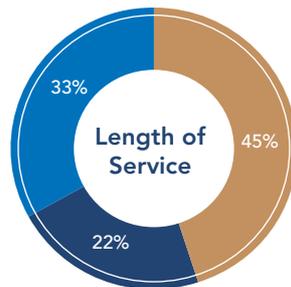
Code provision A.2.1 of the Corporate Governance Code states that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Mr. TAN Yueheng, the Chairman of the Company, also assumes the responsibilities of Chief Executive of the Company. Mr. 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

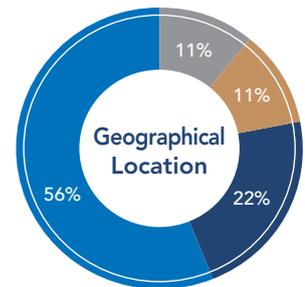
As at 31 December 2020, the Board consists of 9 Directors, comprising 3 Executive Directors, Mr. TAN Yueheng, Mr. MENG Yu and Mr. CHENG Chuange; 3 Non-executive Directors, Ms. LIN Zhihong, Mr. SHOU Fugang and Ms. PO Ying; and 3 Independent Non-executive Directors, Mr. TSE Yung Hoi, Mr. MA Ning and Mr. LIN Zhijun. 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 2020 is set out below:



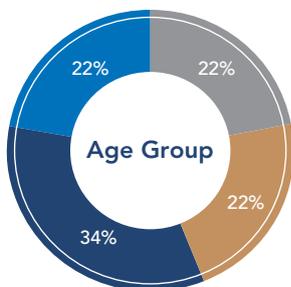
● Male ● Female



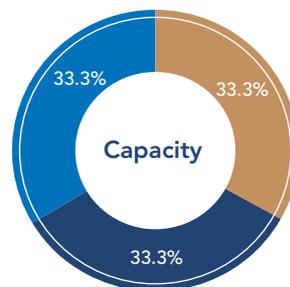
● 0-5 years ● 6-10 years ● 11-15 years



● Macau ● Shanghai ● Beijing ● Hong Kong



● 45-49 years old  
● 50-54 years old  
● 55-59 years old  
● 60 years old and above



● Executive Directors  
● Non-executive Directors  
● Independent Non-executive Directors



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 2020 is summarised as follows:

Directors	Types of training	
	Reading materials/ articles <sup>(1)</sup>	Attending in-house briefings/seminars/ workshops/forums/ conferences <sup>(2)</sup>
<b>Executive Directors</b>		
Mr. TAN Yueheng	✓	✓
Mr. MENG Yu <sup>Note (3)</sup>	✓	✓
Mr. CHENG Chuange	✓	✓
<b>Non-executive Directors</b>		
Mr. WANG Yijun <sup>Note (4)</sup>	✓	✓
Ms. LIN Zhihong	✓	✓
Mr. SHOU Fugang	✓	✓
Ms. PO Ying <sup>Note (5)</sup>	✓	✓
<b>Independent Non-executive Directors</b>		
Mr. TSE Yung Hoi	✓	✓
Mr. MA Ning	✓	✓
Mr. LIN Zhijun	✓	✓



### Notes:

- (1) Materials/articles, newspapers and journals on updates on relevant statutory and regulatory requirements and environmental, social and governance reporting.
- (2) In-house briefings/seminars/workshops/forums/conferences related to topics including developments on the financial and economic environment, business and market changes, director's power and duties under the regulatory requirements, and their responsibilities and continuing obligations.
- (3) Appointed with effect from 1 December 2020.
- (4) Retired with effect from 19 June 2020.
- (5) Appointed with effect from 19 June 2020.

### 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 2020 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	11/11	42/42	–	–	1/1
Mr. MENG Yu <sup>Note (2)</sup>	–	5/5	–	–	–
Mr. CHENG Chuang	11/11	42/42	–	–	–
<b>Non-executive Directors</b>					
Mr. WANG Yijun <sup>Note (3)</sup>	6/6	–	–	–	1/1
Ms. LIN Zhihong	11/11	–	3/3	–	–
Mr. SHOU Fugang	11/11	–	–	1/1	–
Ms. PO Ying <sup>Note (4)</sup>	5/5	–	–	–	–
<b>Independent Non-executive Directors</b>					
Mr. TSE Yung Hoi	11/11	–	3/3	1/1	1/1
Mr. MA Ning	11/11	–	–	1/1	1/1
Mr. LIN Zhijun	11/11	–	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) Appointed with effect from 1 December 2020.
- (3) Retired with effect from 19 June 2020.
- (4) Appointed with effect from 19 June 2020.

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 2020 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 5 members, namely, Mr. TAN Yueheng (Chairman), Mr. MENG Yu and Mr. CHENG Chuange, all of whom are Executive Directors of the Company, 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 2020, the Executive Committee held 42 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.

For the year ended 31 December 2020, 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 2019, the 2019 annual results announcement and the 2019 annual report;
- the interim results of the Group for the six months ended 30 June 2020, the 2020 interim results announcement and the 2020 interim report;
- the effectiveness of the Group's risk management, internal control systems and internal audit function; and
- re-appointment of the auditor.



### Remuneration Committee

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policies and structure for the remuneration of Directors and senior management and on the establishment of formal and transparent procedures for developing remuneration policies, and make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. 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 2020, 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
- the remunerations of the new Non-executive Director, the new Executive Director and Chief Executive Officer of the Company.

### 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, Ms. PO Ying, 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 2020, the Nomination Committee held 1 meetings. The main duties and major works performed by the Nomination Committee during the Year included the review, approval of and recommendations to the Board on:

- the existing structure of the Board, Directors' performance, diversity of the Board, and independence of the Independent Non-executive Directors; and
- appointment of the new Non-executive Director, the new Executive Director and Chief Executive Officer of the Company.

### COMPANY SECRETARY

Ms. YI Li has developed a good understanding of the Listing Rules and obtained relevant experience. The Stock Exchange has confirmed that Ms. YI is qualified to act as the company secretary of the Company under Rule 3.28 of the Listing Rules. Ms. YI Li acts as the sole Company Secretary with effect from 19 May 2020, and at the same time, Kwong Yin Ping Yvonne ceased to act as a Joint Company Secretary.

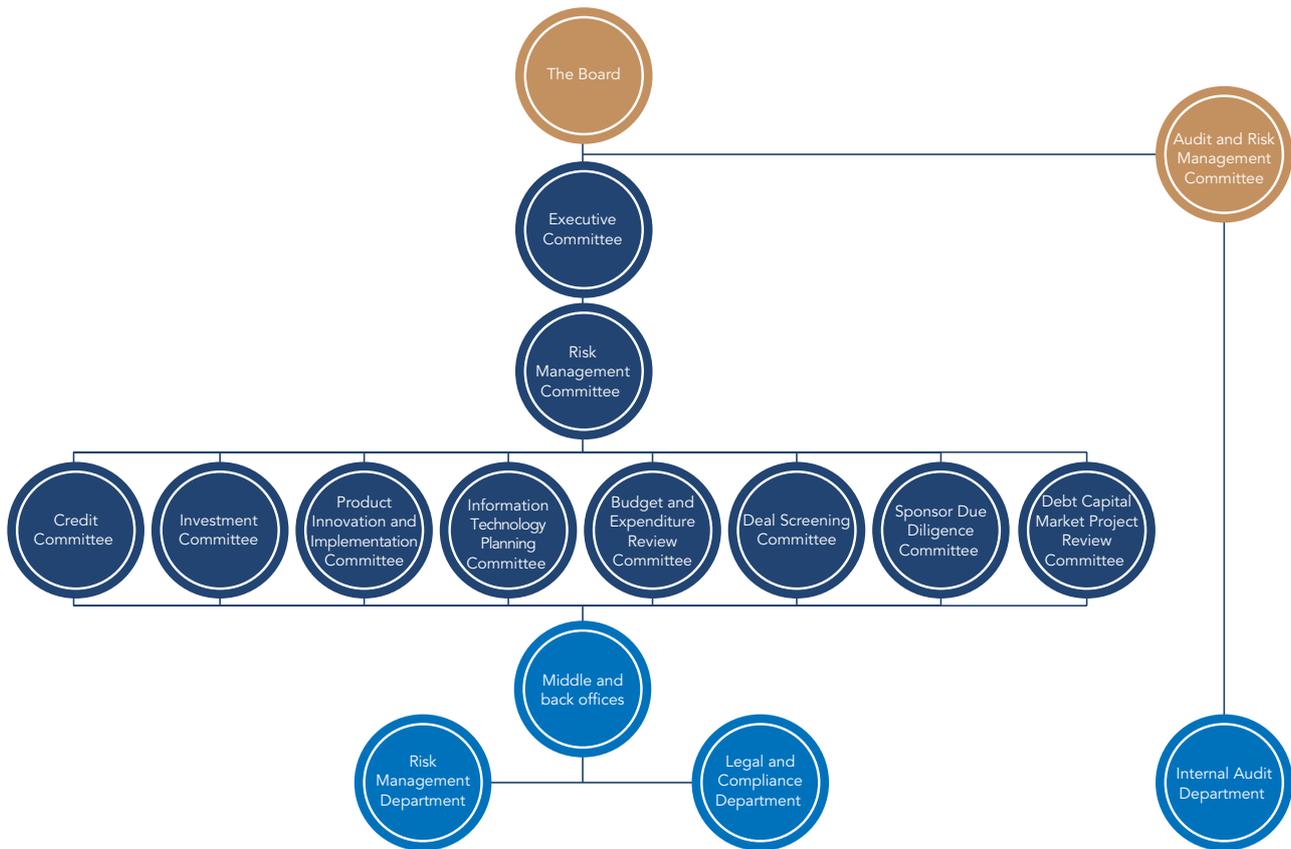
Ms. YI has taken no less than 15 hours of the relevant professional training during the Year.

### 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.



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.



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. CHENG Chuange, Ms. LIN Zhihong, Mr. SHOU Fugang, Ms. PO Ying, Mr. TSE Yung Hoi, Mr. MA Ning and Mr. LIN Zhijun attended the annual general meeting and the extraordinary general meeting held on 19 June 2020. The abovementioned Directors, together with Mr. MENG Yu, also attended the extraordinary general meeting held on 24 December 2020. Representatives from PricewaterhouseCoopers, the auditor, and Altus Capital Limited, the independent financial adviser in connection with the revision of annual caps for existing continuing connected transactions and the entering into new 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.



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 2020, 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	4,735
Taxation and other advisory services	274

## 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 fourth 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 2020 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.

### 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 2020 to 31 December 2020 (the “Reporting Period”). In order to enhance the completeness of the report, some of the content is appropriately traced backward or forward.

### 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 (2016 Edition) (the “Guide”) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. 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.

### **Materiality**

The Group identified material issues related to the Group through a materiality assessment procedure and made relevant disclosure in this report. Such procedure included: identifying sustainable development issues related to the Group and key stakeholders, inviting all stakeholders and the Board to prioritise the sustainable development issues in order of importance and carry out analysis on material issues, etc. This report has been prepared by focusing on the material issues verified by the Board. For details on the materiality assessment procedure, please refer to the section headed “Stakeholder Engagement” in this report.



### ***Quantitative***

In order to comprehensively evaluate the Group's performance in environmental, social and governance (ESG) aspects during the Reporting Period, the Group made disclosure regarding the applicable quantitative key performance indicators as set out in the Guide, and explained the standards, methods, assumptions and calculation tools adopted for such quantitative key performance indicators, including the source of key conversion factors.

### ***Consistency***

This report has adopted, as far as practical, the same data statistical and collection methodologies with those applied for the previous reporting period to provide meaningful comparison of our performance during the Reporting Period for all stakeholders.

### ***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 GOVERNANCE

### SUSTAINABLE DEVELOPMENT OBJECTIVES

The Group is committed to developing itself into a comprehensive wealth management and financial services institution with global influence and market competitiveness in the region, and makes strenuous efforts to enhance the sustainability and competitiveness of its business. 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:

#### STEADY MANAGEMENT

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

#### CARE FOR EMPLOYEES

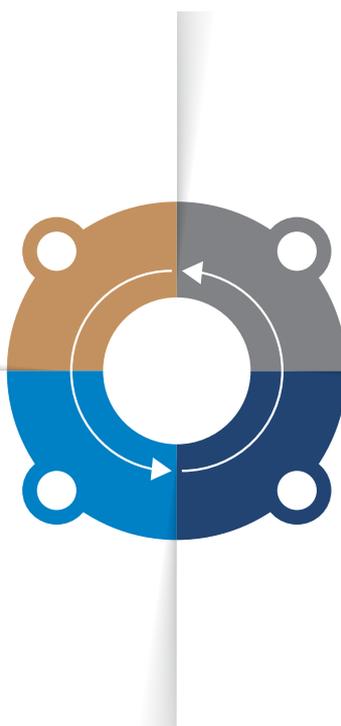
Creating a working environment full of humanistic care and building an efficient and collaborative elite team

#### CARE FOR THE COMMUNITY

Supporting community growth, with the aim of promoting socially sustainable development

#### CARE FOR THE ENVIRONMENT

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



#### The implementation of sustainable development objectives during the Reporting Period:

Steady Management	<ul style="list-style-type: none"> <li>Strengthening risk management and control to ensure smooth business operation and balance risks and returns</li> <li>Launching the "BOCOMI Services App" to provide customers with around-the-clock services and optimise online services</li> </ul>
Care for Employees	<ul style="list-style-type: none"> <li>Attaching great emphasis to employees' health and well-being, and working together with the staff to fight against the COVID-19 pandemic</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>Implementing low-carbon operation measures to proactively combat climate change</li> <li>Assisting in three green bond issuance projects to support the development of green industries</li> </ul>
Care for the Community	<ul style="list-style-type: none"> <li>Supporting the community in the fight against the COVID-19 pandemic through a diverse range of initiatives during these challenging times</li> </ul>



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE SYSTEM

The Group proactively incorporates the concept of sustainable development into its corporate governance framework, and has established the ESG-related issue governance structure led by the Board. The Board is fully responsible for the Group's ESG strategies and reporting, and has authorised its subordinate ESG Task Force ("Task Force") to assist in performing such duties. The 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 the Environmental, Social and Governance (ESG) Task Force (the "Administrative Measures for Task Force"), and regularly reports to the Board.

The Administrative Measures for Task Force aims to specify the responsibilities of the Task Force members and reporting procedures for sustainable development work. In order to further promote the sustainable development work of the Group, the Task Force members discussed the amendments to the Administrative Measures for Task Force during the Reporting Period, including updating the responsibilities of the Task Force, so as to strengthen the Board's engagement in the ESG-related work and continuously facilitate the implementation of the sustainable development governance concept and the relevant strategies by the Group.

The major duties of Task Force are as follows:

- to assist in identifying, evaluating and prioritising the Group's material ESG-related issues, and report the results of materiality assessment to the Board for confirmation;
- to assist the Board in analysing the potential risks and opportunities from the material ESG-related issues on the Group's business strategy and establishing an appropriate and effective ESG risk management and internal control system;
- to assist the Board in setting up the Group's ESG-related objectives, and carry out regular assessment of the progress on achieving these objectives;
- 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 the Board in formulating and reviewing the existing ESG governance approaches and strategies as appropriate.

During the Reporting Period, the Task Force also conducted one meeting and a work interview to discuss the amendments to the Administrative Measures for Task Force and matters related to the 2020 ESG disclosure of the Group.



## STAKEHOLDER ENGAGEMENT

The Group understands that support from all stakeholders are essential for sustainable corporate development, thus we make great efforts to maintain effective communication with our stakeholders and ensure that we understand their concerns and expectations in a timely manner, so that we may take their opinions into consideration when developing 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 a diverse range of channels.

### 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>



Communication Channels with Stakeholders

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>

 Annual General Meeting





## MATERIALITY ASSESSMENT

In order to ensure that this report specifically addresses the key issues of concern of the stakeholders regarding the Group, in addition to our existing communication mechanism with the stakeholders, the Task Force also invited the stakeholders to participate in the materiality assessment. Details on the materiality assessment procedure are set out as follows:

### 1 identify key stakeholders and update the sustainable development issue pool

In formulating the list of key stakeholders to participate in this materiality assessment, the Task Force considered several factors such as “the degree of influence on enterprises” and “the degree of influence of enterprises” of each stakeholder and the feasibility. At the same time, with reference to the compliance requirement under the Guide, the sustainable development issue pool of the previous year and the benchmark analysis on peer enterprises, the Task Force selected 29 sustainable development issues related to the Group to update the sustainable development issue pool of the Group.

### 2 invite key stakeholders to participate in the assessment

We invited the key internal and external stakeholders identified in Step 1 to participate in this materiality assessment through online questionnaire survey. The stakeholders who participated in the assessment included the employees and management of the Company, customers, investment sector, business partners, media, community/non-governmental organisations, financial sector peers and professional bodies. The internal and external stakeholders ranked the sustainable development issues across the economic, environmental and social areas in order of materiality from the perspectives of the Group and their owning standing respectively.

### 3 identify material issues

The Group examined the materiality of the sustainable development issues in each aspect by considering two dimensions of “importance to the stakeholders” and “importance to BOCOM International”. We evaluated the relative materiality of these sustainable development issues in the two dimensions (the maximum score for each dimension is 10) by consolidating the ranking made by all internal and external stakeholders. The sustainable development issues that were ranked at half or above of the maximum score of relative materiality in the two dimensions (i.e. ranked at 5 or above in the two dimensions) were considered “material issues”. We have identified 15 material issues across three areas: economic, environmental and social.

### 4 invite the Board to determine material issues

The Task Force invited the Board to confirm the evaluation result of material issues to ensure compliance with the Group’s sustainable development strategies. The details regarding the material issues will be disclosed in the subsequent sections of this report to respond to the stakeholders’ concerns.



### “MATERIAL ISSUES”

#### Economic

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

#### Environmental

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

#### Social

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

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

### STEADY MANAGEMENT TO PURSUE EXCELLENCE

As one of the earliest licensed securities firms with a PRC background in Hong Kong, and by adhering to the strategy of “seeking transformation while maintaining stability”, the Group is well positioned to cope with the ever-changing operation environment. In honouring the philosophy of business integrity, the Group enhances operational risk management and control through prudent internal control procedures, so as to further consolidate our well-established foundation. Meanwhile, we proactively expand into new businesses, improve customer services, strengthen financial technology capabilities and optimise business operations to maintain the long-term competitive advantage of the Group and continuously create value for our customers and shareholders. With our sound business strategy, we retained the same credit ratings by Fitch Ratings and Moody’s Investor Service, both being major international credit rating agencies, receiving the honour of being the internationally highest-rated securities company with a PRC background listed in Hong Kong.



Maintained our credit rating by two major international credit rating agencies

		
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### Risk Management and Internal Control

Sound risk management procedures are essential to ensuring companies' ability to continue as a going concern and help companies strike a balance between the risks and rewards of their day-to-day operations. Therefore, the Group has adopted the relevant provisions as set out in the Corporate Governance Code of the Listing Rules, established risk management and internal control processes, and proactively cultivated a strong 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.

The Group recognises that a clear risk management structure is an important part of the risk management process. The Group has established a three-tier risk management structure consisting of (i) the Board; (ii) a risk management committee and special committees; and (iii) the relevant middle and back offices in charge of the execution of risk management. The risk management committee, which is chaired by Mr. TAN Yueheng, the Chairman and Executive Director, is the decision-making body in respect of risk management, and listens to the risk management reports by various departments on a regular basis. Please refer to the Risk Management and Internal Control as set out in the section headed "Corporate Governance Report" in this annual report for details on the Group's risk management structure.

The Group recognises that emerging risks are intertwined with ESG issues, and has gradually taken into account ESG issues when formulating its risk management processes. In order to mitigate the ESG risks to which we are exposed at business level, we amended the "BOCOM International Securities Investment Management Measures (《交銀國際證券投資業務管理辦法》)" to prioritise investing in environmentally-friendly industries under the backdrop of similar rates of return and risks. Furthermore, the Group preliminarily identified the ESG risks relating to its business during the Reporting Period, such as compliance and cybersecurity risks. The professional personnel of various functional departments are responsible for formulating risk management measures, and shall report to the Board about the effectiveness of such measures on a regular basis, so as to ensure effective risk management and control. In addition, the Group made strenuous efforts to strengthen the awareness and capabilities of various functional departments in controlling the ESG risks, and formulated the "Administrative Measures on Business Continuity (《業務連續性管理辦法》)" to standardise the daily management and emergency handling procedures and specify the responsibilities of various departments upon occurrence of business disruption, with an aim to mitigate the impacts of business disruptions caused by ESG risks. In the future, we will continue to improve our management and control of ESG risks to further ensure the sustainability of our businesses.



## Anti-Money Laundering and Counter-Terrorist Financing

The Group is determined to eliminate any money laundering and terrorist financing activities, and has strictly complied with the SFC's Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (the "Guideline"), and has 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. We require employees of the Group to fully understand their responsibilities under the laws of Hong Kong, including but not limited to 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 they are encouraged to report any suspected crimes in accordance with the aforesaid laws. The Group reviews and updates the "Measures for Anti-Money Laundering and Counter-Financing of Terrorism" in a timely manner to ensure that it complies with the latest laws and regulations, and strives to work together with its employees to fight against money laundering and terrorist financing.

The Group has adopted a series of measures to combat money laundering and terrorist financing. In accordance with the Guideline, we have designated a compliance officer and a money laundering reporting officer, which are acted by 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 and terrorist financing within the Group. In order to further curb money laundering, the Group formulated the "Measures on Annual Compliance Audit for Anti-Money Laundering (《反洗錢年度合規審計辦法》)" during the Reporting Period, which stipulates that the Legal and Compliance Department shall conduct an annual audit on anti-money laundering. If any violations are identified, the Legal and Compliance Department shall request relevant departments to come up with improvement plans within two weeks to eliminate further violations.

We regularly provide employees with compulsory anti-money laundering trainings, with the aim of enhancing their knowledge and capabilities in fighting against money laundering and terrorist financing activities. During the Reporting Period, the Group organised and our employees participated in 12 anti-money laundering trainings, the content of which was tailor-made according to the nature of the employees' work, consisting of prevailing legal and regulatory requirements, in-house policies and case sharing, with an aim to consolidate employees' knowledge on fighting against money laundering and terrorist financing.



### Anti-corruption, Bribery and Financial Crimes

The Group adheres to the core values of honesty, integrity and fairness, attaches great emphasis to the integrity of employees, and prohibits any corruption, bribery, extortion, fraud and other dishonest activities. We require our employees or licensed representatives to 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 perform their duties strictly and uphold professional integrity. Furthermore, our Compliance Manual has clearly specified the approval process and monitoring measures regarding offering and receiving gifts as well as the “prohibited gift items”. Any giving or receiving of gifts shall be reported by employees to and recorded by the employee in-charge of the same department and be approved by the members of the managing executive committee and the member of the executive committee in charge of finances. We clearly prohibit employees from engaging in any form of corruption or bribery activities, such as giving or receiving cash and expensive gifts. In accordance with the “Measures on Annual Compliance Audit for the Prevention of Bribery Code (《防止賄賂守則年度合規審計辦法》)” formulated by the Group, the Legal and Compliance Department conducts an annual bribery review on all departments to ensure that all departments comply with the gift offering and receiving procedures of the Group.

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 misconducts. The Group’s Whistleblowing Policy clearly stipulates the reporting procedures and confidentiality procedures for employees and third parties to ensure that whistleblowers have the right to report any relevant misconducts in writing or orally 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 observe the requirements for maintaining 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 Group provided Directors and employees with anti-corruption and anti-money laundering trainings. We have strictly complied with the Prevention of Bribery Ordinance and have not received any lawsuits regarding corruption.



## Protecting Cybersecurity and Privacy of Clients

The Group is dedicated to protecting privacy of clients, in an effort to safeguard the personal data of clients. We believe that maintaining cybersecurity plays an important role in protecting clients' personal data. The Group has formulated 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.

We strive to fully safeguard clients' legitimate rights and interests when collecting and using their personal information. During the Reporting Period, the Group has strictly abided by the Personal Data (Privacy) Ordinance and informed the clients about the purpose for personal information collection, scope of use permitted and scope of disclosure of clients' personal information, so as to ensure that the clients are aware of and agree on the scope for using their personal information. In order to further protect trade secrets and privacy of the clients, Information Security Policy also states that 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.

A strict confidentiality system has been established to protect clients' personal data. Measures we have taken included establishment of access rights controls and data storage and access monitoring mechanisms, establishment of the Chinese wall policies for separate management of confidential client information by each department, and prohibition on copying any client information to personal devices or using personal computers to process client information by employees, in an effort to strictly limit the risk of client data divulgence. Upon occurrence of confidential data divulgence, we will promptly develop and implement remedial measures in response to the existing circumstances, and make every effort to safeguard the rights and interest of the clients.



### Maintain and Protect Intellectual Property Rights

In order to regulate and strengthen the management and application of our intellectual property rights, according to the Regulations on Software Licenses and Copyrights in the Group's Information Security Policy, all software must not be installed on the Group's computers until approved by the department head and the Information Technology Department and make sure all software installed by employees must have a genuine computer software license. Moreover, all licensed software are managed by the Information Technology Department, and all employees are prohibited from unpermitted use and installing software for individual purposes.

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 is committed to improving customer service quality under the client-based principle, and strives to take the path of high-quality development, so as to bring into play our core advantages. As the market shifted to a technology-oriented one, we attached great emphasis on digital transformation by devoting considerable resources to enhance our online trading platform, data management, cyber security and market surveillance to satisfy various needs. Facing the challenges of the COVID-19 pandemic, the Group's high-quality management team, with the assistance of modern technology, guaranteed efficient and high-quality services to our customers by providing remote services and arranging virtual meetings and other means. We seized market opportunities, made active response to the COVID-19 pandemic and promoted the integration and development of online and offline services. Through cooperation with industry peers, we launched online interactive live stream programs and organised online roadshows for all segments of the industry, with an aim to enrich global product trading platforms and expand online interaction channels, continuously improving customer experience.

Under the backdrop of digital and intelligent transformation, we further pushed forward the development of online customer services and optimised our online service quality. During the Reporting Period, we rolled-out the "BOCOMI Services App", "New Share App (新股寶)" and business intelligence and reporting tool (商業智能報表), focusing on improving our operation and management systems and data analysis capabilities, so as to further optimise digital and intelligent service experience.



In addition to optimisation in financial services, we carefully listen to our customers' opinions and thoughts and 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. Sound and standard procedures for handling customer complaints have been developed to ensure 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. During the Reporting Period, we handled all complaints received properly according to specific procedures and therefore achieved a 100% complaint resolution rate during the Reporting Period.

### Regulate Marketing Management

We adhere to the principle of integrity in our operations to ensure that all information disclosed and provided is true and reliable. 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 promotion materials and engaging in advertising and promotion activities. We guarantee the fairness and compliance of promotion materials, without false, groundless, misleading or fraudulent information, which include applicable legal and regulatory disclosure statement(s) or appropriate warning statement(s).

### Supplier Management

Through maintaining a close and sound relationship 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.

For procurement procedures with major expenditure, for example, suppliers for renovation works, 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. Moreover, we also conduct evaluation and screening of suppliers selected by us. In addition to taking into account the quality and cost of services and products, efficiency and goodwill of suppliers, we also value their commitment to and performance of its environmental and social responsibilities, encouraging suppliers to provide environmental and secured products and services. Our evaluation methods for suppliers included oral enquiry and service inspection, such as observing whether a supplier meets occupational health standards in the delivery of services and checking the source of materials and components of products, to ensure that the supplier operates compliantly and meets our social and environmental requirements. During the Reporting Period, we engaged 45 suppliers from Hong Kong, all of whom were selected in strict accordance with our standards<sup>1</sup>.

<sup>1</sup> The number of suppliers stated above covers suppliers for printing paper, renovation projects, furniture, electrical appliances as well as cleaning and hygiene services, currently excluding providers for transportation and freight services and gardening services.



Moreover, we implement the practice of green procurement by always taking into account the environmental factors when procuring office supplies. We give priority to office supplies made of renewable materials and with environmental certification instead of disposable office supplies, such as sustainability-certified paper, reusable tableware, electrical appliances with energy-saving labels and energy-saving lamps. We also encourage suppliers to provide high-quality environmentally-friendly office supplies, so as to further reduce the Group's impact on the environment.

### TAKING CARE OF EMPLOYEES AND NURTURING TALENTS

Upholding the "people-oriented" corporate culture, the Group regards employees as important assets. We are committed to recruiting and cultivating outstanding talents, building an united and cooperative elite team and creating an ideal working environment, with an aim to combine the personal development of our employees with the development of the Company.

During the Reporting Period, the Group has strictly complied with various Hong Kong laws including the Employment Ordinance, the Employees' Compensation Ordinance, the Minimum Wage Ordinance, 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. 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, and implemented human resources management.

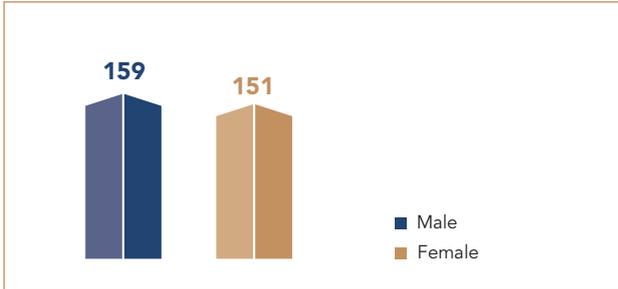
Before hiring new employees, we will investigate employees' personal information and confirm that employees meet the statutory working age. In addition, in the case of any falsely provided information or information discrepancy, we will require the prospective staff to provide a reasonable explanation. 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 as set out in the Employment Ordinance. At the same time, we enter into employment contracts with employees based on the principle of equality, and clearly specify working hours, rest days and holidays in the Human Resources Management System. Moreover, any forms of forced labour are prohibited.

The Human Resources Management System contains provisions on standard notice period and procedures for resignation, which we and the employees are required to follow for the protection of the rights and interests of both parties. The notice period for resignation is stipulated in the employment contract, and in case either party fails to give prior notice as required, the other party shall be indemnified with payment in lieu of such notice. Employees are also required to sign the "Final Salary Confirmation (最後薪金同意書)" before leaving the Group, so as to ensure that they are aware of the amount of post-employment pay and receive reasonable amount of post-employment pay.

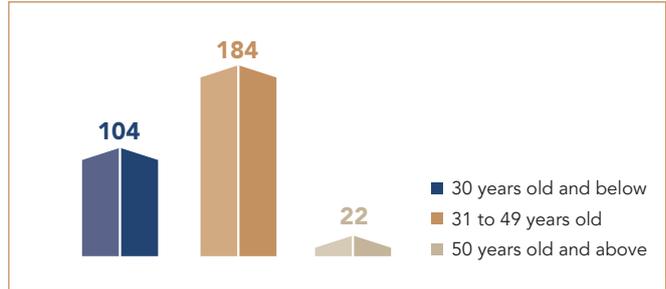


As at the end of the Reporting Period, the Group had a total of 310 employees who are all full-time employees. The number of employees<sup>2</sup> and turnover rate by gender, age group and geographical region are as follows:

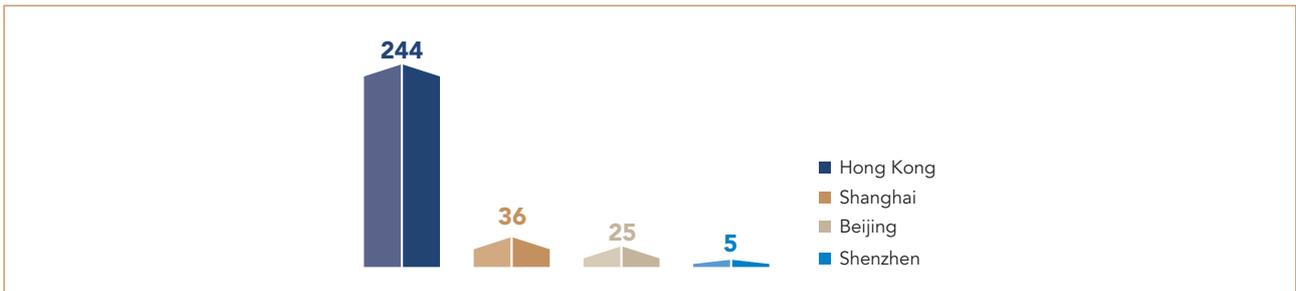
Number of employees by gender



Number of employees by age group



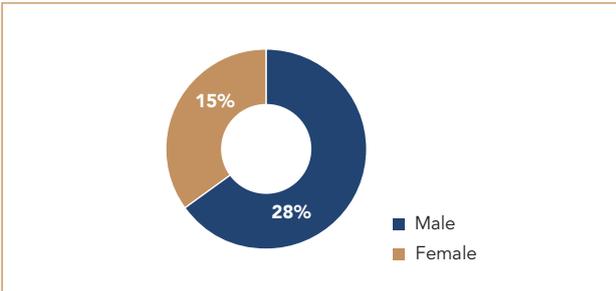
Number of employees by geographical region



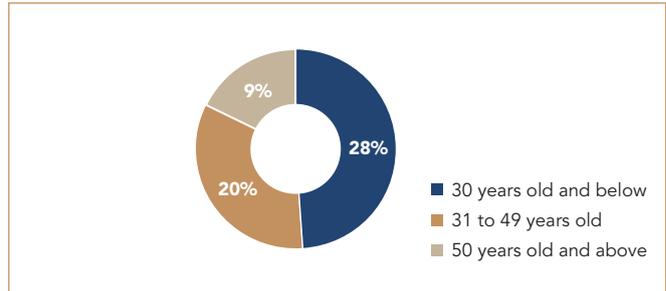
<sup>2</sup> All statistics in relation to the number of employees of the Group are as of 31 December 2020.



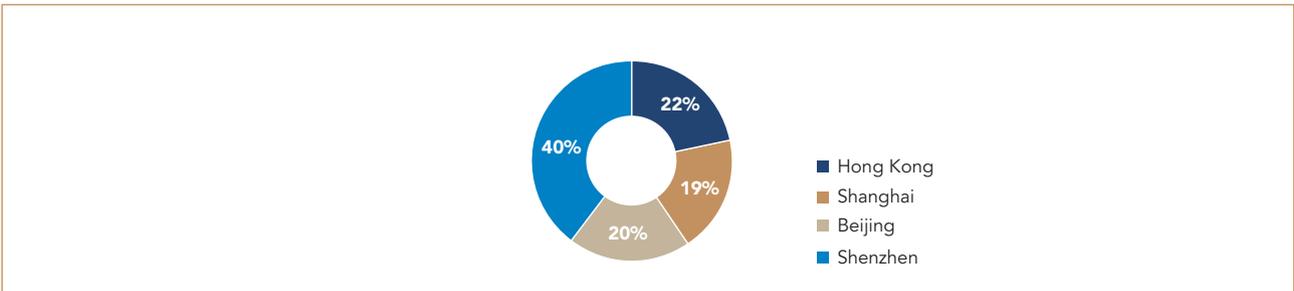
 Turnover rate of employees by gender



 Turnover rate of employees by age group



 Turnover rate of employees by geographical region



### Equal Opportunities and Diversity

The Group is committed to creating an equal, open and diverse working environment to ensure fair and open recruitment, promotion opportunities and benefits of staff. 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 in Hong Kong, and eliminated discrimination based on factors such as gender, body type, race and ethnicity. During staff recruitments, we adopt a uniform selection process and only consider relevant factors such as qualifications, work experience, skills of the candidates and job requirements. At the same time, we adopt unified promotion criteria, which emphasise 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 in the process of recruitment and promotion, and the Group is committed to protect the rights of employees to equal opportunities.



## Employee Benefits and Welfare

The Group attaches great importance to the benefits and welfare system of employees to attract talents and maintain our elite team. In accordance with the existing Human Resources Management System, we implement flexible working hours for individual staff based on the special factors including nature of work, scheduling and staffing in different positions. 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 continue to review the current employment regulations and market conditions, and offer competitive compensation and benefits superior to statutory requirements. 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 birthday leave, marriage leave and compassionate leave. In addition to the employment injury insurance we purchased for all employees in accordance with the Employees' Compensation Ordinance, we also provided comprehensive medical benefits through purchasing group medical insurance for employees and their immediate family members. Meanwhile, we set a separate Lactorium which is equipped with welfare facilities such as chairs, tables and a refrigerator, with the aim of providing female employees in the maternity period with a friendly workplace environment, demonstrating our care for employees.

Besides, we have established the Health Committee to organise staff group activities and welfare initiatives, with the aim of promoting communications among staff from different departments and fostering their sense of belonging to the Group. In the future, we will continue to offer employees generous benefit packages, and promote the "people-oriented" corporate culture.



Lactorium

## 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 in Mainland China. We also stipulated in the Human Resources Management System that, labour insurance, group life insurance, personal accident insurance and business travel insurance are to be purchased for our employees to ensure the occupational health and safety of our employees to the largest possible extent. In addition, we provide various annual health examination schemes for employees to meet their different health examination needs. Moreover, we also equip our employees with ergonomic office facilities, and conduct periodic inspections on fire fighting equipment of the office premises, with an aim to reduce the risks of occupational hazards and fire accidents to our employees while they are on duty.



The Group has comprehensively considered the safety of employees at work and while commuting to work, and mitigated relevant safety issues. The Group has established corresponding work arrangements and contingency measures against extreme weather events such as typhoons and rainstorms for the safety of its employees. We also provide safety education to employees, such as giving out Fire Safety Guidance to employees, educating them about fire emergency arrangements and ensuring their familiarity with escape routes, so as to enhance their awareness on fire prevention. During the Reporting Period, the Group did not have any work-related injuries or fatalities.

We also attach great importance to the physical and mental health of the employees, encourage them to develop after-hour hobbies and assist them in maintaining a work-life balance. To this end, we have launched the “Bocom International Running Program” under which the running mileage of each participating employee of his/her own free will is recorded via smartphone positioning and rewards will be granted to those who achieve the program goal, with an aim to encourage our employees to take more exercise for the purpose of physical fitness enhancement, stress relief after work and ultimately physical and mental health improvement.

### ***Proactive Implementation of Epidemic Prevention and Control Measures***

Since 2020, the outbreak of the COVID-19 pandemic subjected the entire world to grave disruptions. In order to safeguard the health and safety of our employees, in the early stage of the COVID-19 pandemic, we swiftly set up a steering group for the prevention and control of the COVID-19 pandemic 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 COVID-19 pandemic.



### Strengthening the steering team and coordinating the deployment of epidemic containment measures

- To cope with the development of the COVID-19 pandemic, the steering group for the prevention and control of the COVID-19 pandemic has held 20 meetings for the deployment of epidemic prevention works during the Reporting Period, so as to ensure prompt formulation of epidemic prevention measures and adjustment to the intensity of prevention measures.
- We circulated updated epidemic prevention arrangement notices to the employees in a timely manner and maintained close communication with the employees, so as to ensure the health and safety of the employees as well as an orderly business operation.



### Increasing efforts in epidemic prevention and control and implementing special work arrangements

- Various work arrangements were implemented in different stages of the COVID-19 pandemic, which helped to curb the risks of spreading the COVID-19 pandemic. During the dire period of the COVID-19 pandemic, we implemented a work arrangement which required only minimal on-site presence by allowing employees to work at home as much as possible. For departments whose affairs can't be conducted from home, we arranged staff of those departments to work at different locations, i.e., different offices in different floors for staff of different departments. In addition, public facilities in office premises were sterilised at regular time every day, as a way to reduce the risks of cross infections among employees.
- Furthermore, we required our employees to cancel visits, business meals and physical meetings, and to convene meetings via video or telephone.



### Staying committed to epidemic containment and establishing an epidemic reporting mechanism

- An epidemic prevention and control reporting mechanism has been established, under which, the heads of all departments are required to submit a report containing information such as the health conditions of the department members, whether they have been in close contact with person who contracted COVID-19 and whether there is any confirmed cases in the communities they reside, etc., enabling us to have updated information and adopt appropriate response measures in a timely manner.
- As required by the external and in-house requirements of the government, regulatory agencies and the Group, we provided our employees and relevant personnel with updated information daily and ensured timely circulation of information on epidemic prevention.



### Caring more for employees and raising their awareness on hygiene and protection

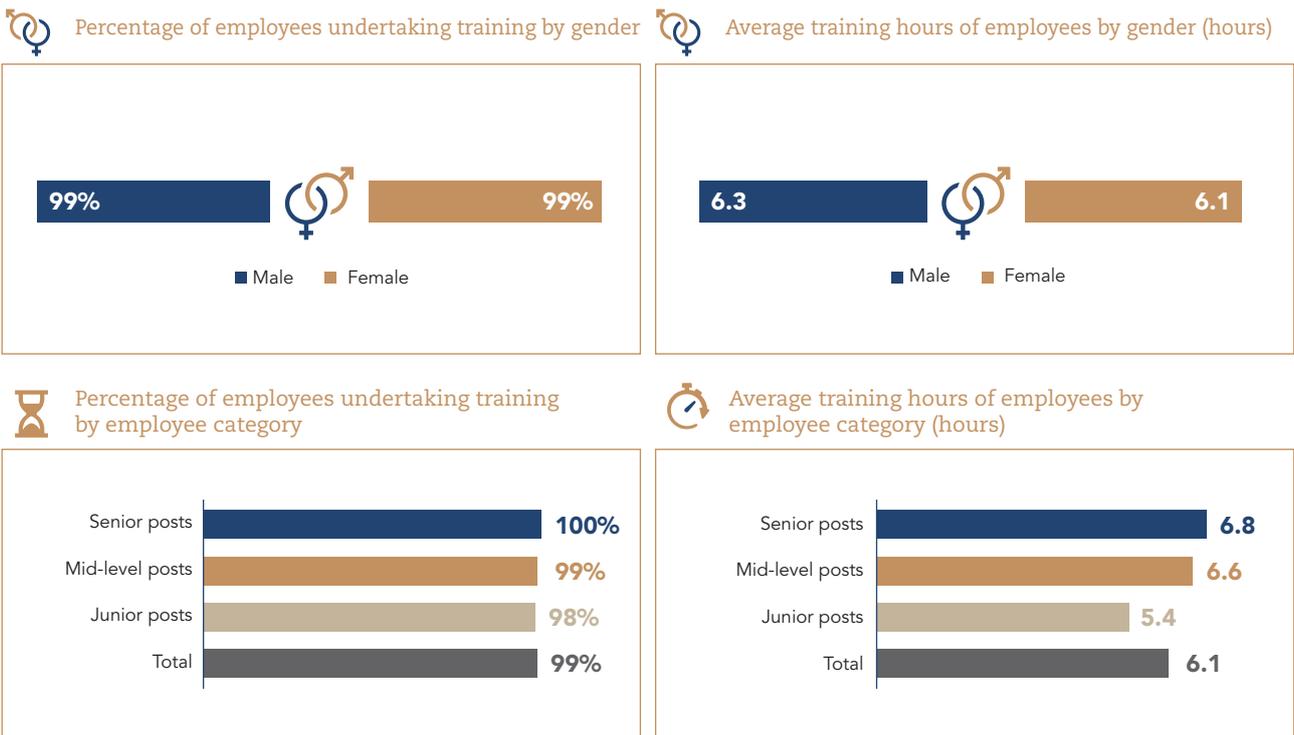
- Following the outbreak of the COVID-19 pandemic, we promptly purchased and provided protective masks, hand sanitisers and other prevention materials to our employees. We cared about their health and emotions, learned about their needs and offered our hands.
- During different stages of the COVID-19 pandemic, we offered our employees lunch allowance, transport expense and testing expense reimbursement, and provided them with necessary support. We also offered related leaves to staff who received COVID-19 vaccine, so as to encourage them to get vaccinated to safeguard their health.
- In order to raise our employees' protection awareness during the COVID-19 pandemic, we advocated the epidemic prevention requirements and distributed correct prevention information to our employees. All employees were subject to a temperature check before entering the work premises and were required to wear face mask at work. Efforts have been made to raise the hygiene awareness of all employees.



### Employee Training and Development

The Group recognises that talent cultivation is essential to the long-term development of our business. Therefore, the Group proactively organised its employees to take part in various education training programs and provided specific regulations regarding training coordination and employee training subsidy of the Group in the Human Resources Management System, providing assistance for employees to acquire professional knowledge and skills that meet the needs of their work, so as to suit the business development and strategic plan of the Group. 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 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 profession-related courses and exams, so as to encourage them improve their qualifications according to their individual career plans.

The percentage<sup>4</sup> of employees undertaking training by gender and employee category and the average training hours<sup>5</sup> are as follows<sup>6</sup>:



<sup>4</sup> Training percentage is calculated by: dividing the number of employees of the category who received training by the total number of employees of the category\*100%.

<sup>5</sup> Average training hours of employees is calculated by: dividing the total training hours received by employees of the category by the total number of employees of the category.

<sup>6</sup> The statistics regarding employee training set out below include the internal training provided by the Group and part of external training taken by employees and subsidised by the Group. Statistics of resigned employees are excluded during the Reporting Period.



During the Reporting Period, we organised several orientation trainings for new employees to further new employees' understanding of the Company's corporate culture philosophy, regulatory requirements and management systems and help them adapt to new working environment more promptly. At the same time, we have jointly organised anti-bribery and anti-money laundering training sessions with the Independent Commission Against Corruption of Hong Kong, with the aim of stressing to all our employees the importance of complying with the relevant laws and regulations in the industry and enhancing our employees' awareness of legal compliance and professional integrity. In order to further strengthen employees' professional knowledge, we held several special training seminars on topics including the investment trend of various industries, assisting employees in gaining an in-depth understanding of the latest development trend of the industry and having an accurate picture of the future development of the industry, which helped improve the investment decision-making capability of our employees. In addition, we organised a cybersecurity awareness training to increase the cybersecurity awareness of employees. According to business requirement, we also invited external professionals to hold seminars on the latest laws and rules governing the secondary listing and connected transactions, aiming to enhance employees' knowledge of and competency in relevant business.



Online Cybersecurity Training



Special Training Seminars include:





## CARING FOR THE ENVIRONMENT AND GREEN OPERATIONS

In order to continuously promote the Group's sustainable development, the Group implements the "green operation" philosophy and is committed to reducing the negative impact on the environment from our business operations, so as to ensure a balance between business development and environmental protection.

### Green Office Measures

The daily operations of the Group are mainly carried out in office premises, thus the major impacts on the environment are emissions from electricity consumption or use of vehicles, office wastes and resource consumption. Although we do not make a significant impact on the environment and natural resources in daily operations, we have proactively developed the Green Office Tips, made strenuous efforts to implement resource-saving measures and set a role model to educate our employees to embrace on environmental protection. 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 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, and store documents electronically to save paper. Meanwhile, we also encourage employees to reuse recycled paper or waste paper and use double-sided photocopying by setting up a waste bin next to the printing machine and pre-setting double-sided photocopying mode for the printing machine, with an aim to reduce paper waste.



### ***Saving Electricity***

We educate our employees to cultivate electricity-saving habits to reduce unnecessary energy waste. We circulate the Notice on Safe Use of Electricity to employees to remind them to turn off all unnecessary power sources, such as lights, photocopiers, computers, water dispensers and coffee machines before leaving for holidays, after office hours and before leaving the meeting room. We also advocate that employees shall not apply for extended use of air conditioning equipment unless necessary, so as to reduce additional consumption of electricity. In addition, we actively adopt electrical appliances with lower power consumption, such as those with grade 1 energy labels, in an effort to improve energy efficiency. During the Reporting Period, with effective implementation of our energy-saving measures, the total electricity consumption of our office premises was reduced.

### ***Saving Water***

In order to avoid wasting water resources, we post water-saving notices at appropriate areas to enhance the employees' awareness on water conservation. In addition, we provide cups for visitors in the conference room and recommend employees to bring their own cups for in-house meetings, so as 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 municipal water supply system, and there is no difficulty in finding water sources. During the Reporting Period, with effective implementation of our water-saving measures, we did not encounter unexpected trouble in securing water resources.



Water-saving Notice



### Reasonable Use of Vehicles

The vehicles of the Group are mainly used for accommodating clients, transportation for meetings, etc. To promote low-carbon office and resource conservation, we encourage employees hold meetings by means of telephone, video or other communication equipment and make business visits via public transportation vehicles, so as to mitigate the impact on the environment. In addition, 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 to minimise reductions in fuel efficiency caused by aging and abrasion of vehicle parts. During the Reporting Period, with effective implementation of measures to reduce use of vehicles, air pollutants and greenhouse gas emissions produced by use of vehicles were reduced.

#### Hong Kong office areas<sup>7</sup> – Resource consumption

Class	Consumption in 2020	Intensity of consumption in 2020	Consumption in 2019	Intensity of consumption in 2019
Total energy consumption	921.61 mWh	3.78 mWh/person	1,013.94 mWh	3.98 mWh/person
<b>Direct energy consumption</b>				
Fuel consumption (gasoline) <sup>8</sup>	6,772.90 L	1,128.82 L/vehicle	13,575.00 L	2,262.50 L/vehicle
	65,638.65 kWh <sup>9</sup>	10,939.78 kWh/vehicle	131,560.29 kWh	21,926.72 kWh/vehicle
<b>Total indirect energy consumption</b>				
Electricity consumption	855,973.00 kWh	3,508.09 kWh/person	882,381.00 kWh	3,460.32 kWh/person
		183.34 kWh/m <sup>2</sup>		189.00 kWh/m <sup>2</sup>
Water consumption <sup>10</sup>	872.73 tonnes	3.58 tonnes/person	806.96 tonnes	3.16 tonnes/person
Total paper consumption	6,835.75 kg	28.02 kg/person	7,222.45 kg	28.32 kg/person

<sup>7</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>.

<sup>8</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. Due to the outbreak of the COVID-19 pandemic, the Group reduced visits to and from business partners, so as to guarantee the safety of our employees. Accordingly, the fuel consumption of company vehicles for 2020 was significantly lower than that recorded for the previous reporting period.

<sup>9</sup> Fuel consumption is initially measured in the unit of litre, and is converted to kWh based on the conversion factors as set out in the Energy Data Book issued by the International Energy Agency.

<sup>10</sup> As water is supplied by the building, water consumption is calculated based on the data regarding the average water consumption of each floor and average daily water consumption provided by the property management company of the building.



### Environmental Protection Education and Promotion

We actively promote environmental awareness to our employees through different channels, and encourage them to develop environmental protection habits and practice of environmental protection in daily life. Employees have been instructed to implement environmental protection measures in office premises, and dedicated personnel are assigned to conduct regular inspections to ensure that employees comply with established environmental requirements while developing good environmental protection habits. In addition, we provide reusable tableware in staff leisure areas and encourage our employees to avoid using disposable tableware. In the future, we will proactively explore opportunities to organise employees to participate in environmental protection activities, thereby further encouraging employees to practice environmental protection.

### Waste Disposal and Recycling

During the Reporting Period, the Group has been in strict compliance with the Waste Disposal Ordinance of Hong Kong, and the hazardous and non-hazardous waste generated from office operations were disposed in accordance with the relevant regulations. The hazardous waste generated in our office premises mainly includes discarded computer screens, fluorescent light tubes and waste toner cartridges. In hope of making the best use of all resources, we give priority to recycling the hazardous waste. Instead of directly discarding the hazardous waste, we donate all discarded computer screens to charitable organisations for reuse. We also arrange for suppliers to collect the used toner cartridges on a regular basis, so as to ensure appropriate treatment of the hazardous waste and avoid environmental pollution. In addition, waste sorting and recycling bins are placed in the office premises for collection of non-hazardous waste such as waste paper, aluminum cans and plastic bottles, which will subsequently be put into the central recycling bins of the office building for collective collection. In actively response to the government's policy initiatives, we introduce initiatives in the office premises for waste reduction from the source to reduce waste generated from office operations. During the Reporting Period, we effectively implemented waste reduction measures without any irregularity.



## Hong Kong office areas – Waste generation

Class	The amount generated in 2020	The intensity generated in 2020	The amount generated in 2019	The intensity generated in 2019
<b>Hazardous waste</b>				
Waste fluorescent light tubes	40 tubes	0.01 tube/m <sup>2</sup>	45 tubes	0.0086 tube/m <sup>2</sup>
Waste toner cartridges	150 cartridges	0.61 cartridge/person	166 cartridges	0.65 cartridge/person
Computer screens	54 screens	0.22 screen/person	0 screen	0 screen/person
<b>Non-hazardous waste</b>				
Waste paper <sup>11</sup>	2,050.73 kg	8.40 kg/person	2,166.73 kg	8.50 kg/person
Computer cases	0 case	0 case/person	66 cases	0.26 case/person

<sup>11</sup> The amount of the waste paper was estimated based on 30% of our paper consumption.

## Promoting Low-carbon Operation and Emission Reduction to Combat Climate Change

The Group proactively implements energy-saving and low-carbon measures to reduce greenhouse gas emissions generated from its operation, making contribution to the global transition to a low-carbon economy. In order to understand and monitor the greenhouse gas emissions from our business operation, we regularly calculate the greenhouse gas emissions of the Hong Kong office areas. 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 employees' business travels by air and waste paper disposed at landfills (Scope 3).



Hong Kong office areas – Greenhouse gas emissions

Greenhouse gas emissions scope	Volume of emissions in 2020	Volume of emissions in 2019	Unit
Scope 1 <sup>12</sup> :	18.02	36.11	tonnes
Scope 2 <sup>13</sup> :	664.26	680.14	tonnes
Scope 3 <sup>14</sup> :	20.11	135.08	tonnes
Total volume of greenhouse gas emissions (Scopes 1, 2 & 3)	702.38	851.33	tonnes
Intensity of greenhouse gas emissions (Scopes 1, 2 & 3)	0.15	0.18	tonne/m <sup>2</sup>
	2.88	3.34	tonnes/person

<sup>12</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. Due to the outbreak of the COVID-19 pandemic, the Group has reduced visits to and from business partners, so as to guarantee the safety of our employees. Accordingly, the greenhouse gas emissions caused by use of official vehicles for 2020 was significantly lower than that recorded for the previous reporting period.

<sup>13</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 2019 Sustainability Report by CLP Power Hong Kong Limited.

<sup>14</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>). Due to the outbreak of the COVID-19 pandemic, the Group has reduced business travels by its employees, so as to guarantee their safety. Accordingly, the greenhouse gas emissions from business travels for 2020 was significantly lower than that recorded for the previous reporting period.

Given our greenhouse gas emissions are mainly generated from electricity consumption in the office and business travels by employees, we have put in place measures to reduce such emissions. We encourage employees to save energy and reduce electricity consumption, and to turn off all lighting and electrical appliances outside office hours, thereby reducing the greenhouse gas emissions caused by energy consumption. Meanwhile, we implement the practice of “green procurement” and give priority to electrical appliances with grade 1 energy labels, with the aim of improving energy efficiency. In addition, we also advocate employees to replace business travels with phone calls or video conferences to reduce greenhouse gas emissions caused by business travels. During the Reporting Period, we have effectively implemented the above-mentioned energy-saving and emission-reduction measures. However, as we significantly reduced office attendance and business travels due to the impact of the COVID-19 pandemic, it was impossible to calculate the accurate results of such emission reduction measures.



In addition to the practice of low-carbon operations, we place increasingly greater emphasis on the impact of climate change on business operations, and we plan to develop response policies and measures to mitigate the risks brought by climate change. The Group has formulated the Administrative Measures on Business Continuity (《業務連續性管理辦法》) to address operation disruptions caused by typhoons and other extreme weather conditions, so as to ensure rapid recovery of smooth business operations and strengthen our capability in combatting climate change, thereby reducing operational risks. Meanwhile, we have drafted the Administrative Measures on Addressing Climate Change Related Issues (《應對氣候變化相關事宜管理辦法》) during the Reporting Period, which (among others) specifies the duties and responsibilities of the Task Force, identifies the impact of climate change issues on operation premises, and sets out specific measures for the management of climate change-related issues in terms of monitoring, risk management and planning, with an aim to control the potential impact of climate change on the Group.



Besides, we also value the impact of other air pollutants on the local environment. During the Reporting Period, we have strictly complied with the Air Pollution Control Ordinance of Hong Kong and managed our sources of air pollutant emissions in accordance to the relevant regulations, which were mainly from the six official vehicles over which the Group has operational control in the Hong Kong office areas.

Hong Kong office areas – Air pollutant emissions

Types of air pollutant emissions <sup>15</sup>	Volume of emissions in 2020	Volume of emissions in 2019	Unit
NOx emissions	2.50	5.46	kg
SOx emissions	0.10	0.20	kg
CO emissions	22.49	49.08	kg
PM2.5 emissions	0.06	0.12	kg

<sup>15</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. Due to the outbreak of the COVID-19 pandemic, the Group has limited visits to and from business partners, so as to guarantee the safety of our employees. Therefore, the air pollutant emissions caused by use of official vehicles for 2020 was significantly lower than that recorded for the previous reporting period.



## Green Finance

In order to enhance the sustainability and competitiveness of our business model, we proactively promote the development of green finance business by making good use of our business nature and capitalising on market demands and trends. We give priority to green environmental protection projects and combine green investment with sustainable development needs, so as to facilitate the development of green industries and promote our principle of sustainable development.

### ***Negative Screening Strategy***

In conducting project assessments, we eliminate projects involving high pollution and high energy consumption businesses. For investment projects with the same return rate, we give priority to green projects. In addition, in the post-investment management stage, we keep close attention over counterparties for any negative media reports. Upon occurrence of an event on the part of a 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***

We make active efforts to facilitate the issuance of green bonds, with the aim of promoting the development of green and innovative industries. During the Reporting Period, we completed the issuance of three green bonds in total. On 19 February 2020, acting as a joint global coordinator, we again assisted Modern Land (China) Co., Limited to issue green bonds with a principal amount of US\$200 million. The proceeds from the issuance of such green bonds shall be used to refinance the qualified green assets, so as to promote the development of green real estate business. On 28 July 2020, acting as a joint bookrunner, we assisted China Construction Bank Corporation to issue two green bonds with a principal amount of US\$500 million and US\$700 million respectively. The proceeds from the issuance of these two green bonds shall be used to support the development of clean transportation sector, and these green bonds were certified by the Climate Bond Initiative prior to their issuance, demonstrating their contribution in addressing the climate change. Our efforts in assisting corporates to issue green bonds responds to the international capital market's focus on green finance, and also demonstrates our commitment to implementing the green finance development strategy and our dedication in promoting the development of green economy.



## CARE FOR THE COMMUNITY, COOPERATION FOR WIN-WIN DEVELOPMENT

As a socially responsible enterprise, the Group pays close attention to the demand for the sustainable development of the community while pursuing its business development, in hope of leveraging its influence to boost community development to create win-win opportunities. At the beginning of the outbreak of the COVID-19 Pandemic, we took the lead in making donations to the community to support the community in the spirit of mutual help. Meanwhile, we proactively joined hands with various charities and organised our employees to participate in a variety of public welfare activities. We have worked with the Hong Kong Community Chest for many consecutive years by participating in “Walk for a Million” and making donations to support the communities in need.



In early 2020, after witnessing the rampant spread of the COVID-19 Pandemic across Mainland China, we were determined to serving our motherland with patriotism and took the lead to donate RMB1 million to the Hubei Charity Federation, in an effort to support the epidemic prevention and control work. Furthermore, we played an active role in providing material assistance to elderly homes and other community organisations in Hong Kong, demonstrating the spirit of mutual support and our commitment to fulfilling corporate social responsibility. In addition, our employees volunteered to donate materials with a total value of HK\$382,800, and further donated 3,000 medical masks to the Central Hospital of Wuhan amidst shortage of anti-epidemic materials.



On 5 January 2020, we again organised our employees’ participation in the “Hong Kong & Kowloon Walk for Millions” charity walk, and donated HK\$10,500 to support family and child welfare services of the Community Chest.



APPENDIX: INDEX OF THE GUIDE OF HKEX

Aspect	Index	Content Index	Relevant Sections/Notes
A. Environmental			
A1: Emissions	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste	The Contents Relating to Discharges Into Water and Land Were Not Applicable to Our Principal Activities. The Others Were Disclosed in the Sections Headed Promoting Low-carbon Operation and Emission Reduction to Combat Climate Change and Waste Disposal and Recycling
	A1.1	The types of emissions and respective emissions data	Promoting Low-carbon Operation and Emission Reduction to Combat Climate Change
	A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility)	Promoting Low-carbon Operation and Emission Reduction to Combat Climate Change
	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, Promoting Low-carbon Operation and Emission Reduction to Combat Climate Change
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	Waste Disposal and Recycling



Aspect	Index	Content Index	Relevant Sections/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, Product Manufacturing and Packaging were not Involved in Our Principal Activities
A3: The Environment and Natural Resources	General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources	Caring For the Environment and Green Operations
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	Caring For the Environment and Green Operations



Aspect	Index	Content Index	Relevant Sections/Notes
<b>B. Social</b>			
B1: Employment	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare	Taking Care of Employees and Nurturing Talents
	B1.1	Total workforce by gender, employment type, age group and geographical region	Taking Care of Employees and Nurturing Talents
	B1.2	Employee turnover rate by gender, age group and geographical region	Taking Care of Employees and Nurturing Talents
B2: Health and Safety	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards	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



Aspect	Index	Content Index	Relevant Sections/Notes
B4: Labour Standards	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour	Taking Care of Employees and Nurturing Talents
	B4.1	Description of measures to review employment practices to avoid child and forced labour	Taking Care of Employees and Nurturing Talents
	B4.2	Description of steps taken to eliminate such practices when discovered	Taking Care of Employees and Nurturing Talents
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	Supplier Management
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored	Supplier Management
B6: Product Responsibility	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress	The Contents Relating to Product Health and Safety, Labelling Were not Not Applicable to Our Principal Activities. The Others were Disclosed in the Sections Headed Protecting Cybersecurity and Privacy of Clients, Maintain and Protect Intellectual Property Rights and 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 Cybersecurity and Privacy of Clients



Aspect	Index	Content Index	Relevant Sections/Notes
B7: Anti-corruption	General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering	Anti-Money Laundering and Counter-Terrorist Financing, Anti-corruption, Bribery and Financial Crime
	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, Bribery and Financial Crime
	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, Bribery and Financial Crime
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, Cooperation for Win-win Development
	B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport)	Care for The Community, Cooperation for Win-win Development
	B8.2	Resources contributed (e.g. money or time) to the focus area	Care for The Community, Cooperation for Win-win Development

# Awards



Zhitong Finance,  
RoyalFlush Information



Zhitong Finance,  
RoyalFlush Information



The Asset



Phoenix



Shanghai Futures Exchange:  
Shanghai International  
Energy Exchange



Securities Times



Securities Times



National Business Daily



Securities Times



Securities Times



The Asset



The Asset



Hong Kong Tai Kung Wen Wei Media Group



Top 100 Hong Kong Stocks Research Centre



Shanghai United Media Group: Jiemian.com



Shanghai United Media Group: Jiemian.com



Refinitiv



Refinitiv



Refinitiv



Mandatory Provident Fund Schemes Authority

# 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 107 to 238, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- 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 2020, 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 judgement, 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 Notes 3(b), 22, 26 and 39.1(b) to the consolidated financial statements.

As at 31 December 2020, the margin loans to customers amounted to HK\$2,799,125 thousand and financial assets at fair value through other comprehensive income (debt investments) amounted to HK\$2,642,655 thousand which collectively, represented 23% of the Group's total assets. As at 31 December 2020, the impairment allowance on margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) amounted to HK\$82,678 thousand and HK\$269,803 thousand, respectively.

The Group's impairment losses are calculated based on a "three-stage" expected credit loss ("ECL") model, which involves significant management judgements and a number of estimated inputs in the calculation. For margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) classified under Stages 1 and 2, management assessed expected credit loss allowances using the statistical modelling approach that incorporated key assumptions and parameters, for instance, probability of default, loss given default, exposure at default, and forward-looking information taking into account of possible impact of COVID-19. For credit-impaired margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) classified under Stage 3, management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration of forward-looking factors.

#### 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:

- We have obtained an understanding of the management's internal control and assessment process of the impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments), including the impairment model adopted and key assumptions used; and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of subjectivity;
- We have tested key management controls over the recording, approval and monitoring of the impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments);
- We have tested key management controls over ECL model monitoring;
- With the support of our internal model specialists, we have assessed the reasonableness of ECL modelling methodologies and key assumptions applied by the management including input parameters, forward-looking information and taking into account management assessment of possible impact of COVID-19;
- We have challenged the reasonableness of the significant assumptions used by management to develop ECL estimates, including determination of staging and significant increase in credit risk, and conducting sensitivity analysis on the weightings used for multiple economic scenarios;

# 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) (continued)**

A variety of inputs and assumptions were considered by management, including but not limited to the Group's internal and external default data, the profile of the underlying securities, determination criteria for significant increase in credit risk, definition of default, 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 in future periods. The amount of ECL recognised as a loss allowance depends on the extent of credit deterioration since initial recognition.

Impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) was considered a key audit matter due to the size of the balances and high degree of estimation uncertainty. The inherent risks in relation to the impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) are significant due to subjectivity of significant management judgement and assumptions involved in developing ECL estimates.

### How our audit addressed the Key Audit Matter

- We have tested the data inputs to the ECL model on a sample basis to verify the data completeness and accuracy;
- We have assessed 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, 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;
- We have assessed the appropriateness of impairment allowance made by the Group on margin loans and fair value through other comprehensive income (debt investments) classified as stage 3, on a sample basis, by evaluating and challenging the reasonableness of the key assumptions and management judgement involved in estimating the discounted future cash flows, with reference to the economic background, financial information, repayment history and repayment plan of borrowers, and availability of collaterals, if applicable.

Based on the above, we considered that management's judgements and assumptions applied in the impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) were supportable by the evidence obtained and procedures performed.

## Independent Auditor's Report (Continued)

### KEY AUDIT MATTERS (continued)

#### Key Audit Matter

#### Valuation assessment of Level 3 financial instruments

Refer to Note 3(a), 22 and 39.3 to the consolidated financial statements.

As at 31 December 2020, the Level 3 financial instruments mainly comprise of unlisted funds, debt investments and preference shares. The amount consisted of financial assets at fair value through profit or loss of HK\$3,739,873 thousand and financial assets at fair value through other comprehensive income of HK\$7,107 thousand.

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 judgement and estimates were made in the valuation process. As outbreak of COVID-19 has caused challenges or opportunities on different companies, sectors, nations, regions and the markets, depending on the business segments of the underlying investment companies. It has therefore increased the uncertainty in the valuation of the level 3 financial instruments.

The estimation of fair value of Level 3 financial instruments is subject to high degree of estimation uncertainty. The inherent risk in relation to the valuation of Level 3 financial instruments is considered significant due to the complexity of the valuation models applied, subjectivity of significant assumptions used and significant judgements involved in selecting unobservable inputs.

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

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

- We have obtained an understanding of the management's internal control and assessment process of the valuation assessment of Level 3 financial instruments and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud, and the impact of COVID-19 on the underlying investments;
- We have tested the key controls over the valuation and classification of levels for Level 3 financial instruments;
- We have tested the key controls over the management's monitoring on the financial and non-financial updates of the underlying investments;
- We have evaluated the competency and objectivity of the external valuation experts used by the management;
- With the support of our internal valuation experts, we have assessed the appropriateness of models and assumptions used for the valuation of Level 3 financial instruments, on a sample basis, with reference to market practice;

# Independent Auditor's Report (Continued)

## KEY AUDIT MATTERS (continued)

### Key Audit Matter

### How our audit addressed the Key Audit Matter

#### Valuation assessment of Level 3 financial instruments (continued)

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

- We have inspected and evaluated the terms and conditions of the underlying investment agreements that are relevant to valuation for selected Level 3 financial instruments, on a sample basis;
- We have evaluated, on a sample basis the appropriateness and reasonableness of the key model inputs, external and internal supporting documents used in the valuation and testing the mathematical accuracy of the computation;
- We have considered whether the management judgements made in selecting the valuation models and significant assumptions and data would give rise to indicators of possible management bias;
- We have evaluated and compared the disposal proceeds to prior year valuation results in order to test the reasonableness of management's estimates in valuation for Level 3 financial instruments disposed of during the year.

Based on the above, we considered that management's judgements and assumptions applied in the valuation assessment of Level 3 financial instruments were supportable by the evidence obtained and procedures performed.

## Independent Auditor's Report (Continued)

### OTHER INFORMATION

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

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

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

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

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

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

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

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

## Independent Auditor's Report (Continued)

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgement 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, actions taken to eliminate threats or safeguards applied.

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 Poon Tak Cheong, Raymond.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 24 March 2021

# Consolidated Income Statement

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Revenue			
Commission and fee income	5	413,270	364,401
Interest income	5	675,079	545,152
Proprietary trading income	5	987,503	507,454
		<b>2,075,852</b>	1,417,007
Other income	5	118,943	153,235
<b>Revenue and other income</b>		<b>2,194,795</b>	1,570,242
Commission and brokerage expenses	6	(56,586)	(36,613)
Finance costs	7	(279,641)	(355,598)
Staff costs	8	(401,993)	(374,378)
Depreciation		(83,275)	(78,059)
Other operating expenses	10	(178,266)	(171,329)
Change in impairment allowance	11	(262,322)	(49,236)
Total expenses		<b>(1,262,083)</b>	(1,065,213)
Operating profit		<b>932,712</b>	505,029
Share of results of associates	19	(10,413)	26,571
Share of results of joint ventures	20	734	(91)
<b>Profit before taxation</b>		<b>923,033</b>	531,509
Income tax expense	12	(71,852)	(30,870)
<b>Profit for the year</b>		<b>851,181</b>	500,639
<b>Attributable to:</b>			
Shareholders of the Company		843,155	500,567
Non-controlling interests		8,026	72
		<b>851,181</b>	500,639
<b>Earnings per share attributable to shareholders of the Company for the year – Basic/Diluted (in HKD per share)</b>	13	<b>0.31</b>	0.18

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 HK\$'000	2019 HK\$'000
<b>Profit for the year</b>	<b>851,181</b>	500,639
<b>Other comprehensive income/(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	<b>97,152</b>	(39,249)
Amounts reclassified to profit or loss upon disposal of debt investments at fair value through other comprehensive income	<b>(22,473)</b>	43
	<b>74,679</b>	(39,206)
Exchange differences on translation of foreign operations	<b>97,901</b>	(8,805)
	<b>172,580</b>	(48,011)
<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	<b>41,346</b>	24,157
<b>Other comprehensive income/(loss), net of tax</b>	<b>213,926</b>	(23,854)
<b>Total comprehensive income</b>	<b>1,065,107</b>	476,785
<b>Attributable to:</b>		
Shareholders of the Company	<b>1,025,092</b>	477,077
Non-controlling interests	<b>40,015</b>	(292)
	<b>1,065,107</b>	476,785

# Consolidated Statement of Financial Position

At 31 December 2020

	Notes	31/12/2020 HK\$'000	31/12/2019 HK\$'000
<b>Assets</b>			
<b>Non-current Assets</b>			
Property and equipment	15	37,338	34,054
Right-of-use assets	16	111,830	73,623
Intangible assets	17	3,196	3,196
Interest in associates	19	211,159	393,964
Interest in joint ventures	20	124,320	33,274
Other assets	21	41,172	24,710
Financial assets at fair value through other comprehensive income	22	2,488,616	3,172,930
Loans and advances	23	1,095,098	1,509,172
Receivable from reverse repurchase agreements	27	–	224,987
Deferred tax assets	33	10,876	10,758
<b>Total non-current assets</b>		<b>4,123,605</b>	<b>5,480,668</b>
<b>Current Assets</b>			
Loans and advances	23	1,708,665	817,323
Tax recoverable		2,295	–
Accounts receivable	24	1,108,083	511,929
Other receivables and prepayments	25	446,139	346,462
Margin loans to customers	26	2,799,125	2,679,240
Receivable from reverse repurchase agreements	27	237,350	379,596
Amount due from a fellow subsidiary	28	5,857	–
Amount due from an associate	28	–	547
Amounts due from related parties	28	1,269	1,937
Financial assets at fair value through other comprehensive income	22	492,641	1,457,609
Financial assets at fair value through profit or loss	22	10,405,548	6,507,553
Derivative financial assets	22	24,367	2,224
Cash and bank balances	29	2,004,915	545,141
<b>Total current assets</b>		<b>19,236,254</b>	<b>13,249,561</b>
<b>Total assets</b>		<b>23,359,859</b>	<b>18,730,229</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	34	3,942,216	3,942,216
Retained earnings		3,419,833	2,778,837
Revaluation reserve		(95,069)	(167,158)
Foreign currency translation reserve		39,999	(25,913)
<b>Total equity attributable to shareholders of the Company</b>		<b>7,306,979</b>	<b>6,527,982</b>
Non-controlling interests	18	476,959	99,828
<b>Total equity</b>		<b>7,783,938</b>	<b>6,627,810</b>

## Consolidated Statement of Financial Position (Continued)

At 31 December 2020

	Notes	31/12/2020 HK\$'000	31/12/2019 HK\$'000
<b>Liabilities</b>			
<b>Non-current Liabilities</b>			
Borrowings	35	–	4,964,230
Subordinated loans from the ultimate holding company	35	1,000,000	1,000,000
Obligation under repurchase agreements	35	313,835	248,915
Lease liabilities	16	56,438	25,019
Deferred tax liabilities	33	45,789	–
<b>Total non-current liabilities</b>		<b>1,416,062</b>	<b>6,238,164</b>
<b>Current Liabilities</b>			
Borrowings	35	8,633,885	3,216,467
Obligation under repurchase agreements	35	3,755,772	1,222,714
Tax payable		13,337	11,388
Provision for staff costs		176,850	101,524
Other payables and accrued expenses	30	128,621	67,213
Accounts payable	31	612,645	405,443
Contract liabilities	32	51,431	55,479
Lease liabilities	16	56,169	51,700
Amount due to the ultimate holding company	28	33,759	5,459
Amount due to a fellow subsidiary	28	–	55
Financial liabilities at fair value through profit or loss	22	663,255	723,871
Derivative financial liabilities	22	34,135	2,942
<b>Total current liabilities</b>		<b>14,159,859</b>	<b>5,864,255</b>
<b>Total liabilities</b>		<b>15,575,921</b>	<b>12,102,419</b>
<b>Total equity and liabilities</b>		<b>23,359,859</b>	<b>18,730,229</b>
<b>Net current assets</b>		<b>5,076,395</b>	<b>7,385,306</b>
<b>Total assets less current liabilities</b>		<b>9,200,000</b>	<b>12,865,974</b>

The consolidated financial statements on pages 107 to 238 were approved and authorised for issue by the Board of Directors on 24 March 2021 and signed on its behalf by:

Meng Yu,  
Chief Executive Officer &  
Executive Director

Cheng Chuange,  
Deputy Chief Executive Officer &  
Executive Director

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company						
	Share capital HK\$'000	Retained earnings HK\$'000	Revaluation reserve HK\$'000	Foreign currency translation reserve HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2020	<u>3,942,216</u>	<u>2,778,837</u>	<u>(167,158)</u>	<u>(25,913)</u>	<u>6,527,982</u>	<u>99,828</u>	<u>6,627,810</u>
Profit for the year	-	843,155	-	-	843,155	8,026	851,181
Other comprehensive income for the year	-	43,936*	72,089	65,912	181,937	31,989	213,926
Total comprehensive income for the year	-	887,091	72,089	65,912	1,025,092	40,015	1,065,107
Capital contribution by non-controlling interests	-	-	-	-	-	337,116	337,116
Dividends paid to ordinary shares (Note 14)	-	(246,095)	-	-	(246,095)	-	(246,095)
At 31 December 2020	<u>3,942,216</u>	<u>3,419,833</u>	<u>(95,069)</u>	<u>39,999</u>	<u>7,306,979</u>	<u>476,959</u>	<u>7,783,938</u>
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	<u>3,942,216</u>	<u>2,515,620</u>	<u>(170,708)</u>	<u>(17,472)</u>	<u>6,269,656</u>	<u>134</u>	<u>6,269,790</u>
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 14)	-	(218,751)	-	-	(218,751)	-	(218,751)
Dividends paid by a subsidiary	-	-	-	-	-	(133)	(133)
At 31 December 2019	<u>3,942,216</u>	<u>2,778,837</u>	<u>(167,158)</u>	<u>(25,913)</u>	<u>6,527,982</u>	<u>99,828</u>	<u>6,627,810</u>

\* 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 2020

	Notes	2020 HK\$'000	2019 HK\$'000
<b>Operating activities</b>			
Profit before taxation		923,033	531,509
Adjustments for:			
Dividend income		(93,178)	(110,111)
Interest income from loans or clients		(412,850)	(362,442)
Interest income from financial assets at fair value through other comprehensive income		(262,229)	(182,710)
Bank and other interest income		(28,279)	(47,170)
Finance costs		279,641	355,598
Depreciation		83,275	78,059
Loss on disposal of property and equipment		36	3
Change in impairment allowance		262,322	49,236
Net gain on financial assets and liabilities at fair value through profit or loss		(813,515)	(276,068)
Net loss on derivative financial assets and liabilities		7,915	1,771
Net (gain)/loss on debt investments at fair value through other comprehensive income		(22,473)	43
Foreign exchange gain		(22,545)	(49,987)
Share of results of associates		10,413	(26,571)
Share of results of joint ventures		(734)	91
<b>Operating cash flows before movements in working capital</b>		<b>(89,168)</b>	<b>(38,749)</b>
Increase in other assets		(16,462)	(1,841)
Increase in financial assets at fair value through profit or loss		(2,949,550)	(2,300,941)
(Decrease)/increase in financial liabilities at fair value through profit or loss		(203,254)	692,911
Decrease in derivative financial assets		1,710	3,082
Decrease in derivative financial liabilities		(575)	(2,346)
(Increase)/decrease in accounts receivable		(592,785)	128,909
(Increase)/decrease in margin loans to customers		(154,816)	1,234,117
Increase in loans and advances		(470,693)	(906,640)
Decrease in receivable from reverse repurchase agreements		367,227	20,631
Decrease in amounts due from related parties		671	1,302
Decrease/(increase) in amounts due from an associate		547	(547)
Increase in amount due from a fellow subsidiary		(5,857)	–
(Increase)/decrease in other receivables and prepayments		(44,652)	62,243
Increase/(decrease) in accounts payable		207,202	(91,162)
Increase in amount due to the ultimate holding company		28,300	1,713
Decrease in amount due to a fellow subsidiary		(55)	(28)
Increase in provision for staff costs		75,326	23,008
Decrease in other payables and accrued expenses		(87,787)	(27,153)
(Decrease)/increase in contract liabilities		(4,048)	37,350
<b>Net cash used in operations</b>		<b>(3,938,719)</b>	<b>(1,164,141)</b>

# Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2020

	Notes	2020 HK\$'000	2019 HK\$'000
Income tax paid		(25,700)	(36,940)
Interest received from loans or clients		420,132	348,506
Bank and other interest income received		29,690	48,735
Interest expenses paid		(291,956)	(352,386)
<b>Net cash used in operating activities</b>		<b>(3,806,553)</b>	<b>(1,156,226)</b>
<b>Investing activities</b>			
Dividend received		93,178	110,111
Bond interest income received		524,781	294,855
Purchase of property and equipment		(21,931)	(13,664)
Step acquisition of a subsidiary		23,293	–
Purchase of associates		(55)	(158,664)
Distribution from associates		86	–
Capital injection to joint ventures		(86,497)	(31,703)
Distribution from joint ventures		15	1,694
Purchase of financial assets at fair value through other comprehensive income		(1,170,967)	(2,910,823)
Proceeds on disposal of financial assets at fair value through other comprehensive income		2,735,430	708,899
Decrease/(increase) in time deposit with original maturity of more than three months		62	(29)
<b>Net cash generated from/(used in) investing activities</b>		<b>2,097,395</b>	<b>(1,999,324)</b>
<b>Financing activities</b>			
Net drawdown of bank loans and other borrowings	43	3,091,316	3,228,414
Capital contribution by non-controlling interests		337,116	100,119
Dividends paid to shareholders		(246,095)	(218,751)
Dividends from subsidiaries paid to non-controlling interests		–	(133)
Principal elements of lease payments	43	(73,926)	(69,671)
<b>Net cash generated from financing activities</b>		<b>3,108,411</b>	<b>3,039,978</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,399,253</b>	<b>(115,572)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>540,455</b>	<b>589,348</b>
Effect of exchange rate changes on cash and cash equivalents		60,583	66,679
<b>Cash and cash equivalents at 31 December</b>	29	<b>2,000,291</b>	<b>540,455</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2020

## 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 (“FVOCI”), and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss (“FVPL”), which are carried at fair value.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 2.1 Basis of preparation (continued)

#### **2.1.1 Changes in accounting policies and disclosures**

##### *(a) Amendments to HKFRSs adopted by the Group*

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants to these financial statements for current accounting period:

- Definition of Material – Amendments to HKAS 1 and HKAS 8
- Revised Conceptual Framework for Financial Reporting
- COVID-19 – Related Rent Concessions – Amendments to HKFRS 16
- Interest Rate Benchmark Reform – Amendments to HKFRS 9, HKAS 39 and HKFRS 7

Amendments to HKFRSs effective for the financial year ending 31 December 2020 do not have a material impact on the Group.

##### *(b) New standards, amendments and interpretations not yet adopted by the Group*

Certain new accounting standards, amendments and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

#### 2.2 Subsidiaries (continued)

##### 2.2.1 Consolidation (continued)

###### (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.

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 interests 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 2.2 Subsidiaries (continued)

#### 2.2.1 Consolidation (continued)

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

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.

#### 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

#### 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.

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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations 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.

### 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 from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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

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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

#### 2.6 Revenue recognition (continued)

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.

Revenue from transactions or events that does not arise from a contract with a customer is not within the scope of HKFRS 15 and, therefore, those transactions or events will continue to be recognised as described below:

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 at amortised cost or at fair value through other comprehensive income 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.

#### 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 2.7 Foreign currency translation (continued)

#### **(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.

#### **(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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

#### 2.7 Foreign currency translation (continued)

##### (c) *Group companies (continued)*

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.

#### 2.8 Borrowing costs

All borrowing costs are recognised in the income statement 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 2.9 Taxation (continued)

#### (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 Group's subsidiaries 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.

##### *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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

#### 2.9 Taxation (continued)

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

###### *Outside basis differences (continued)*

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.

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.

Financial assets designated upon initial recognition as at FVPL are designated at the date of initial recognition only if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or recognising the gains and losses on different bases.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 2.10 Financial instruments (continued)

#### 2.10.1 Classification (continued)

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

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

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

Financial liabilities 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 liabilities or recognising the gains and losses on different bases;
- a group of financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel;
- 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.

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

#### 2.10 Financial instruments (continued)

##### ***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, 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 a separate line item, 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 2020

## 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 (including interest income) 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

### 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 the expected credit losses (“ECL”) associated with its financial assets on a forward-looking basis.

The Group has incorporated forward-looking macroeconomic information with the use of multiple probability-weighted scenarios through the use of market forecast with experienced credit judgement to reflect the quantitative and qualitative factors.

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

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

The Group establishes 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 2020

## 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*

To measure the ECL of accounts receivable of corporate finance and underwriting business, simplified approach under HKFRS 9 is applied to calculate a lifetime expected loss allowance. For accounts receivable arising from the Group's dealing in securities and futures business, the Group applies "three-stage" ECL model under HKFRS 9.

##### *Other receivables and amounts due from an associate, a fellow subsidiary and related parties*

To measure the ECL, other receivables and amounts due from an associate, a fellow subsidiary and 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, the Group measures the loss allowance at an amount equal to the next 12 months ECL if the credit risk of debt investments at FVOCI has not increased significantly since initial recognition. 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

#### 2.10 Financial instruments (continued)

##### **2.10.4 Impairment of financial assets (continued)**

###### *Loans and advances*

Loans and advances are carried at amortised costs. The Group assesses the ECL by using “three-stage” ECL model.

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 a provision.

###### *Receivable from reverse purchase agreements*

Receivable from reverse repurchase agreements are carried at amortised costs. The Group assesses the ECL by using “three-stage” ECL model.

###### *Cash and bank balances and other assets*

Cash and cash balances and other assets are subject to the impairment requirements of HKFRS 9. The Group assesses the ECL by using “three-stage” ECL model.

#### 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 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.

### 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 2.16 Property and equipment (continued)

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	3–5 years
Furniture and fixtures	3–5 years
Motor vehicles	3–5 years
Office equipment	3–5 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.

### 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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 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.

### 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

#### 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. They are functionally equivalent to lending with the counterparty's securities pledged as collateral with an agreement to sell back the same securities at an agreed upon price and agreed upon date to the counterparty. 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 are sold by the Group with a concurrent agreement to repurchase at a specified later date and price. The repurchase agreements entered into by the Group are functionally equivalent to collateralised borrowing which involves pledging of corresponding debt securities with an agreement to repay the borrowed sum together with agreed upon interest at an agreed upon date. 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.

#### 2.23 Leases

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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

### 2.23 Leases (continued)

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.

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. 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

#### 2.24 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant and subsidy relate to an asset, the fair value is credited to a deferred income account and is released to income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to income statement by way of a reduction depreciation charge.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

#### (a) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The level of estimation uncertainty and judgement for the calculation of valuation has significantly increased as a result of the economic effects of the COVID-19 pandemic. In particular, the COVID-19 pandemic disrupted global financial markets, and the increased volatility in global financial markets in 2020 has impacted the valuation of financial assets of the Group. The Group has ensured that the valuation technique and the underlying inputs reasonably reflected the current market conditions at the reporting date.

#### (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 exercises its judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's history, existing market conditions as well as forward-looking estimations at the end of each reporting period. The estimation uncertainty and level of judgement for the calculation of impairment allowance has significantly increased as a result of the economic effects of the COVID-19 pandemic, where the estimates are often based on future economic conditions and are sensitive to changes in such condition.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (c) Consolidation assessment of structured entities

Where the Group acts as asset manager of structured entities, the Group makes judgement on whether it is the principal or an agent to determine 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 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 based on whether it has control if facts and circumstances indicate that there are changes to one or more of the elements of controls.

## 4. SEGMENT INFORMATION

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

- (a) Brokerage segment provides securities trading and brokerage services.
- (b) Corporate finance and underwriting segment provides corporate finance services including equity underwriting, debt underwriting, sponsor services and financial advisory services to institutional clients.
- (c) Asset management and advisory segment offers traditional asset management products and services to third party clients. In addition, it also offers investment advisory services, portfolio management services and transaction execution services.
- (d) Margin financing segment provides securities-backed financial leverage for both retail and institutional clients.
- (e) Investment and loans segment engages in direct investment business including investments in various debt and equity securities, 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 4. SEGMENT INFORMATION (continued)

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 2020.

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

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

	Year ended 31 December 2020							Total HK\$'000
	Brokerage HK\$'000	Corporate finance and underwriting HK\$'000	Asset management and advisory HK\$'000	Margin financing HK\$'000	Investment and loans HK\$'000	Others HK\$'000	Elimination HK\$'000	
<b>Total revenue</b>								
Revenue								
Commission and fee income								
• External	180,857	130,373	102,040	-	-	-	-	413,270
• Internal	434	-	6,787	-	-	-	(7,221)	-
Interest income								
• External	-	-	-	193,846	481,233	-	-	675,079
• Internal	-	-	-	-	47,111	-	(47,111)	-
Proprietary trading income								
• External	-	-	-	-	987,503	-	-	987,503
• Internal	-	-	-	-	-	-	-	-
Other income	16,934	-	4,393	-	32,846	64,770	-	118,943
	<u>198,225</u>	<u>130,373</u>	<u>113,220</u>	<u>193,846</u>	<u>1,548,693</u>	<u>64,770</u>	<u>(54,332)</u>	<u>2,194,795</u>
Total expenses	(197,354)	(134,080)	(116,153)	(154,007)	(714,821)	-	54,332	(1,262,083)
Share of results of associates	-	-	-	-	(10,413)	-	-	(10,413)
Share of results of joint ventures	-	-	-	-	734	-	-	734
<b>Profit/(loss) before taxation</b>	<u>871</u>	<u>(3,707)</u>	<u>(2,933)</u>	<u>39,839</u>	<u>824,193</u>	<u>64,770</u>	<u>-</u>	<u>923,033</u>
<b>Other disclosures</b>								
Depreciation	(32,653)	(6,099)	(15,226)	(3,700)	(25,597)	-	-	(83,275)
Change in impairment allowance	182	(3,508)	-	(34,931)	(224,065)	-	-	(262,322)
Finance costs	(771)	(267)	(213)	(50,539)	(274,962)	-	47,111	(279,641)

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 4. SEGMENT INFORMATION (continued)

	Year ended 31 December 2019							Total HK\$'000
	Brokerage HK\$'000	Corporate finance and underwriting HK\$'000	Asset management and advisory HK\$'000	Margin financing HK\$'000	Investment and loans HK\$'000	Others HK\$'000	Elimination HK\$'000	
<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	316,504	-	-	545,152
• Internal	-	-	-	-	52,185	-	(52,185)	-
Proprietary trading income								
• External	-	-	-	-	507,454	-	-	507,454
• 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)

The geographical information of revenue is disclosed as follows:

	2020 HK\$'000	2019 HK\$'000
Total revenue from external customers by location of operations		
– Hong Kong	<b>2,093,629</b>	1,493,972
– Mainland China	<b>101,166</b>	76,270
	<u><b>2,194,795</b></u>	<u>1,570,242</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 5. REVENUE AND OTHER INCOME

	2020 HK\$'000	2019 HK\$'000
<b>REVENUE</b>		
<b>COMMISSION AND FEE INCOME</b>		
Brokerage commission	<b>180,857</b>	118,396
Corporate finance and underwriting fee	<b>130,373</b>	120,083
Asset management and advisory income	<b>102,040</b>	125,922
	<b>413,270</b>	364,401
<b>INTEREST INCOME*</b>		
Interest income from margin financing	<b>193,846</b>	228,648
Interest income from loans and advances	<b>187,386</b>	92,722
Interest income from receivable from reverse repurchase agreements	<b>31,618</b>	41,072
Interest income from financial assets at fair value through other comprehensive income	<b>262,229</b>	182,710
	<b>675,079</b>	545,152
<b>PROPRIETARY TRADING INCOME*</b>		
Net trading and investment income		
– Net gain on financial assets at fair value through profit or loss**	<b>942,569</b>	448,578
– Net gain/(loss) on financial assets at fair value through other comprehensive income	<b>11,793</b>	(25,380)
– Net loss on financial liabilities at fair value through profit or loss	<b>(37,514)</b>	(21,814)
– Net loss on derivative financial instruments	<b>(17,443)</b>	(911)
– Fair value changes from financial liabilities to the investors of the funds consolidated	<b>(5,080)</b>	(3,130)
Dividend income from		
– Financial assets at fair value through profit or loss	<b>52,119</b>	37,788
– Financial assets at fair value through other comprehensive income	<b>41,059</b>	72,323
	<b>987,503</b>	507,454
	<b>2,075,852</b>	1,417,007

\* During the years ended 31 December 2020 and 2019, the Group has considered the disclosures of Interest income and Proprietary trading income with reference to the Group's business and the accounting standard requirements. Accordingly, the comparative figures have been re-presented. There was no impact on total revenue and the profit before taxation for the corresponding year.

\*\* The net gain on financial assets at fair value through profit or loss comprised of net trading gain (including the realised and unrealised amounts) and interest income with the amount HK\$665,174 thousand (2019: HK\$239,249 thousand) and HK\$277,395 thousand (2019: HK\$209,329 thousand) respectively.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 5. REVENUE AND OTHER INCOME (continued)

During the years ended 31 December 2020 and 2019, there was no gain or loss arising from the derecognition of financial assets at amortised cost.

	2020 HK\$'000	2019 HK\$'000
<b>OTHER INCOME</b>		
Handling fees	<b>15,892</b>	18,629
Bank and other interest income	<b>28,279</b>	47,170
Exchange gains	<b>22,545</b>	49,987
Others*	<b>52,227</b>	37,449
	<b>118,943</b>	153,235

\* Other income included HK\$13,517 thousand as the approved amount of wage subsidies under the Employment Support Scheme launched by the HKSAR Government on 12 May 2020 and a one-off subsidy of HK\$50 thousand from the subsidy scheme for the securities industry under the Government's Anti-epidemic Fund. There were no unfulfilled conditions or other contingencies attaching to the government grants. The Group did not benefit directly from any other forms of government assistance.

## 6. COMMISSION AND BROKERAGE EXPENSES

	2020 HK\$'000	2019 HK\$'000
Commission rebate to account executives	<b>49,271</b>	32,810
Commission rebate to the ultimate holding company (Note 36)	<b>2,220</b>	2,022
Commission rebate to a fellow subsidiary (Note 36)	<b>4,305</b>	1,709
Others	<b>790</b>	72
	<b>56,586</b>	36,613

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 7. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest expenses on subordinated loans from the ultimate holding company (Note 36)	25,596	33,680
Interest expenses on bank loans from the ultimate holding company (Note 36)	22,817	19,816
Interest expenses on bank loans and overdraft from other financial institutions	162,917	227,135
Interest expenses on obligation under repurchase agreements	43,537	49,464
Interest expenses on lease liabilities	2,825	3,213
Others	176	126
	<b>257,868</b>	333,434
Other borrowing costs to the ultimate holding company (Note 36)	1,750	1,750
Other borrowing costs to other financial institutions	20,023	20,414
	<b>279,641</b>	<b>355,598</b>

## 8. STAFF COSTS

	2020 HK\$'000	2019 HK\$'000
Salaries, bonus, staff allowances	378,953	351,611
Directors' fees	1,080	1,080
Contributions to retirement benefit scheme	21,960	21,687
	<b>401,993</b>	<b>374,378</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 2020 was HK\$3,094 thousand (2019: HK\$2,410 thousand).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 8. STAFF COSTS (continued)

### Five highest paid individuals

The five highest paid individuals of the Group include no director (2019: one director) for the years ended 31 December 2020 and 2019.

The emoluments of the five (2019: remaining four) highest paid individuals (excluding directors) are as follows:

### Number of individuals

	2020	2019
<b>Individuals</b>		
Emolument bands (HK\$)		
5,000,001 – 5,500,000	–	1
5,500,001 – 6,000,000	1	2
6,000,001 – 6,500,000	1	1
6,500,001 – 7,000,000	1	–
7,000,001 – 7,500,000	1	–
7,500,001 – 8,000,000	–	–
8,000,001 – 8,500,000	1	–
<b>Number of individuals</b>	<b>5</b>	<b>4</b>

Details of the remuneration payable to the five individuals for the year ended 31 December 2020 and remaining four individuals for the year ended 31 December 2019, whose emoluments were the highest in the Group are as follows:

	2020 HK\$'000	2019 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	15,000	12,192
Contributions to retirement benefit scheme	1,509	1,200
Bonus	18,239	9,910
	<b>34,748</b>	<b>23,302</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 9. 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 2020*

Name	Fees HK\$'000	Salaries, housing, other allowances and benefits in kind HK\$'000	Discretionary bonus HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Total HK\$'000
Tan Yueheng	-	3,450	1,548	520	5,518
Meng Yu <sup>(1)</sup>	-	163	178	2	343
Cheng Chuange	-	2,288	2,290	458	5,036
Wang Yijun <sup>(2)</sup>	-	-	-	-	-
Lin Zhihong	-	-	-	-	-
Shou Fugang	-	-	-	-	-
Po Ying <sup>(3)</sup>	-	-	-	-	-
Xi Xuanhua	-	3,000	3,039	458	6,497
Su Fen	-	1,456	2,296	18	3,770
Independent Non-executive Director:					
Tse Yung Hoi	360	-	-	-	360
Ma Ning	360	-	-	-	360
Lin Zhijun	360	-	-	-	360
<b>Total</b>	<b>1,080</b>	<b>10,357</b>	<b>9,351</b>	<b>1,456</b>	<b>22,244</b>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

Directors' and chief executives' emoluments (continued)

For the year ended 31 December 2019

Name	Fees HK\$'000	Salaries, housing, other allowances and benefits in kind HK\$'000	Discretionary bonus HK\$'000	Employer's contribution to a retirement benefit scheme HK\$'000	Total HK\$'000
Tan Yueheng	-	3,566	1,355	495	5,416
Li Ying	-	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	-	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>

- (1) Meng Yu was appointed as Chief Executive Officer with effect from 1 December 2020.  
(2) Wang Yijun retired as a non-executive Director with effect from 19 June 2020.  
(3) Po Ying was appointed as a non-executive Director with effect from 19 June 2020.

No directors and chief executives waived or agreed to waive any emoluments during the years ended 31 December 2020 and 2019. 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 2020 and 2019.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 10. OTHER OPERATING EXPENSES

	2020 HK\$'000	2019 HK\$'000
Auditor's remuneration		
— Audit fee for the Group	4,735	4,132
— Taxation and other advisory services	274	940
Bank charges	1,120	684
Business development expenses	2,070	6,731
Business tax expenses	4,064	420
Exchange and clearing fees	21,243	19,835
IT expenses	41,412	41,979
Legal and professional fees	16,479	15,761
Loss on disposal of property and equipment	36	3
Management fee expenses	12,341	19,561
Motor and travelling expenses	4,097	12,389
Office and maintenance expenses	39,507	35,046
Operating lease charges	3,375	3,047
Recruitment expenses	2,144	3,403
Settlement of regulatory fines	19,600	—
Others	5,769	7,398
	<u>178,266</u>	<u>171,329</u>

## 11. CHANGE IN IMPAIRMENT ALLOWANCE

	2020 HK\$'000	2019 HK\$'000
<b>Change in impairment allowance on:</b>		
Receivable from reverse repurchase agreements (Note 27)	(6)	33
Accounts receivable (Note 24)	(3,326)	(351)
Margin loans to customers (Note 26)	(34,931)	(5,013)
Loans and advances (Note 23)	6,575	(5,495)
Debt investments at fair value through other comprehensive income	(219,777)	(37,655)
Other receivables (Note 25)	(10,860)	(752)
Amounts due from related parties	3	(3)
	<u>(262,322)</u>	<u>(49,236)</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 12. INCOME TAX EXPENSE

	2020 HK\$'000	2019 HK\$'000
Current tax		
Hong Kong Profits Tax	22,927	18,545
PRC Enterprise Income Tax	9,500	15,030
Over provision in prior years	(6,921)	(10,336)
Total current tax	25,506	23,239
Deferred tax	46,346	7,631
Income tax expense recognised in profit or loss	71,852	30,870

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:

	2020 HK\$'000	2019 HK\$'000
Profit before taxation	923,033	531,509
Tax at the income tax rate of 16.5%	152,300	87,699
Tax effect of expenses not deductible for tax purpose	20,610	6,973
Tax effect of income not taxable for tax purpose	(149,651)	(68,310)
Tax effect of tax losses not recognised	12,944	14,176
Tax effect of utilisation of tax losses previously not recognised	(10,759)	(15,427)
Tax effect of unrecognised deductible temporary difference	46,346	7,631
Over provision in prior years	(6,921)	(10,336)
Effect of different tax rates of subsidiaries operating in the PRC	3,226	5,197
Others	3,757	3,267
Tax charge for the year	71,852	30,870

During the year, the Group has evaluated the tax basis of subsidiaries in accordance to Departmental Interpretation and Practice Notes No. 42 (Revised) issued by the Inland Revenue Department, where applicable. Under this circumstance, only realised profit or loss is brought into account in ascertaining the current tax from financial instruments.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 13. 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.

	2020	2019
Profit attributable to shareholders of the Company (HK\$'000)	843,155	500,567
Weighted average number of ordinary shares in issue (in '000 shares)	<u>2,734,392</u>	<u>2,734,392</u>
Earnings per share (in HKD per share)	<u>0.31</u>	<u>0.18</u>

## (b) Diluted

For the years ended 31 December 2020 and 2019, there were no potential diluted ordinary shares. The diluted earnings per share were the same as the basic earnings per share.

## 14. DIVIDENDS

	2020 HK\$'000	2019 HK\$'000
Final dividend proposed after the end of the reporting period of HK\$0.16 per ordinary share (2019: HK\$0.09 per ordinary share)	<u>437,503</u>	<u>246,095</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 2020

## 15. PROPERTY AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Office equipment HK\$'000	Total HK\$'000
<b>Cost</b>					
At 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 and 1 January 2020	38,170	4,324	9,592	88,956	141,042
Additions	1,621	597	–	13,195	15,413
Disposals	(51)	(175)	–	(2,483)	(2,709)
Exchange adjustments	833	52	22	155	1,062
At 31 December 2020	40,573	4,798	9,614	99,823	154,808
<b>Accumulated depreciation</b>					
At 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 and 1 January 2020	33,262	3,459	7,161	63,106	106,988
Charge for the year	2,232	329	712	9,008	12,281
Disposals	(51)	(139)	–	(2,483)	(2,673)
Exchange adjustments	738	22	22	92	874
At 31 December 2020	36,181	3,671	7,895	69,723	117,470
<b>Carrying values</b>					
At 31 December 2019	4,908	865	2,431	25,850	34,054
At 31 December 2020	4,392	1,127	1,719	30,100	37,338

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 16. LEASES

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

	2020 HK\$'000	2019 HK\$'000
<b>Right-of-use assets</b>		
Buildings	111,505	73,401
Others	325	222
	<u>111,830</u>	<u>73,623</u>
<b>Lease liabilities</b>		
Non-current	56,438	25,019
Current	56,169	51,700
	<u>112,607</u>	<u>76,719</u>

Additions to the right-of-use assets during the 2020 financial year were HK\$106,985 thousand (2019: HK\$208 thousand).

(b) Amounts recognised in the consolidated income statement:

	2020 HK\$'000	2019 HK\$'000
<b>Depreciation charge of right-of-use assets</b>		
Buildings	70,835	66,209
Others	159	148
	<u>70,994</u>	<u>66,357</u>
Interest expenses (included in finance costs)	2,825	3,213
Expenses relating to short-term leases (included in other operating expenses)	102	143
Expenses relating to leases of low-value assets that are not shown above as short-term leases (included in other operating expenses)	490	676
	<u>3,417</u>	<u>4,032</u>

The total cash outflow for leases in 2020 was HK\$77,343 thousand (2019: HK\$73,703 thousand).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 16. LEASES (continued)

- (c) The Group leases various offices, staff quarters and car parks. Rental contracts are typically made for fixed periods of 1 year 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.

## 17. INTANGIBLE ASSETS

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

	2020 HK\$'000	2019 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 2020 and 2019, 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 2020

## 18. INVESTMENT IN SUBSIDIARIES

As at 31 December 2020, 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
				2020	2019	
BOCOM International Securities Ltd.	Hong Kong, Limited Liability Company	Dealing in securities and futures	HKD1,100,000,000	100%	100%	Directly
BOCOM International (Asia) Ltd.	Hong Kong, Limited Liability Company	Corporate finance	HKD10,000,000	100%	100%	Directly
BOCOM International Asset Management Ltd.	Hong Kong, Limited Liability Company	Asset management	2020: HKD150,000,000 2019: 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	2020: USD57,000,000 2019: USD43,000,000	100%	100%	Directly
Preferred Investment Management Limited	British Virgin Islands, Limited Liability Company	Investment management	USD100	100%	100%	Directly
BIAM Leveraged Credit Fund SP <sup>1</sup>	Cayman Islands, Investment fund	Investment trading	USD45,140,522	55.57%	–	Directly
BOCOM International China Dynamic Fund	Hong Kong, Investment fund of unit trust	Investment trading	2020: RMB50,680,224 2019: RMB36,238,693	78.27%	70.73%	Directly
Qingdao BOCOM Haikong Science and Technology Innovation Equity Investment Partnership Enterprise L.P.* 青島交銀海控科創股權投資合夥企業（有限合夥）	Qingdao, Limited Partnership	Investment trading	RMB182,000,000	50%	–	Directly and indirectly
BOCOM International Nova Limited	Hong Kong, Limited Liability Company	Investment management	HKD1	100%	–	Directly

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 18. INVESTMENT IN SUBSIDIARIES (continued)

Name of subsidiaries	Place of incorporation, operation and kind of legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the Group		Directly held/ indirectly held
				2020	2019	
Hainan BOCOM International Science and Technology Innovation Shengxing Equity Investment Partnership L.P.* 海南交銀國際科創盛興股權投資合夥企業(有限合夥)	Hainan, Limited Partnership	Investment trading	USD99,971,943	100%	–	Directly and indirectly
BOCOM International Futures Limited <sup>2</sup>	Hong Kong, Limited Liability Company	Dealing in futures	HKD10,000,000	100%	100%	Indirectly
BOCOM International Equity Investment Management (Shenzhen) Company Limited* 交銀國際股權投資管理(深圳)有限公司	Shenzhen, Limited Liability Company	Investment management	USD5,000,000	100%	100%	Indirectly
Brilliant Investment Management Limited	Cayman Islands, Limited Liability Company	Investment management	USD1	100%	100%	Indirectly
BOCOM International Radiant Investment Limited	British Virgin 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%	100%	Indirectly
Shanghai Bole Investment Company Limited* 上海博樂投資有限公司	Shanghai, Limited Liability Company	Investment trading	2020: RMB159,000,000 2019: RMB120,000,000	100%	100%	Indirectly
BOCOM International Beyond Limited	Hong Kong, Limited Liability Company	Investment management	HKD1	100%	–	Indirectly
BOCOM Financial Technology Company Limited* 交銀金融科技有限公司	Shanghai, Limited Liability Company	Financial technology	RMB600,000,000	100%	–	Indirectly
BOCOM International (Shanghai) Science and Technology Investment Management Co., Ltd.* 交銀國際(上海)科創投資管理有限公司	Shanghai, Limited Liability Company	Investment trading	RMB5,000,000	100%	–	Indirectly

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 18. INVESTMENT IN SUBSIDIARIES (continued)

Name of subsidiaries	Place of incorporation, operation and kind of legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the Group		Directly held/ indirectly held
				2020	2019	
Shanghai Boli Investment Company Limited* 上海博禮投資有限公司	Shanghai, Limited Liability Company	Investment trading	RMB105,000,000	100%	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%	38.71%	Indirectly
Jiaxing Hengsheng Equity Investment Fund Partnership Enterprise L.P.* <sup>3</sup> 嘉興恒昇股權投資基金合夥企業(有限合夥)	Jiaxing, Limited Partnership	Private equity investment	RMB20,150,000	23.25%	100%	Indirectly
Shenzhen Boqiang Investment Consulting Co., Ltd.* 深圳博強投資諮詢有限公司	Shenzhen, Limited Liability Company	Investment trading and advisory service	– <sup>4</sup>	100%	100%	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%	100%	Indirectly
BiMatrix Capital Limited	Hong Kong, Limited Liability Company	Investment management	USD1	100%	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(有限合夥)	Shanghai, Partnership	Investment trading	2020: RMB380,000,000 2019: RMB141,000,000	26.32%	30.77%	Indirectly

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

## Notes:

- <sup>1</sup> On 1 October 2020, BIAM Leveraged Credit Fund SP was reclassified from an associate to a subsidiary of the Group due to change of its effective interest, resulting a control over the fund. As at step acquisition date, no gain or loss was recognised as a result of remeasuring the equity interest to fair value.
- <sup>2</sup> BOCOM International Futures Limited ceased the business of regulated activities on 9 January 2018.
- <sup>3</sup> On 1 January 2020, Jiaxing Hengsheng Equity Investment Fund Partnership Enterprise L.P. was reclassified to a subsidiary by management with consideration of its shareholding structure.
- <sup>4</sup> Shenzhen Boqiang Investment Consulting Co., Ltd. had an issued capital of RMB20,000,000 without fully paid-up as at 31 December 2020.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 18. INVESTMENT IN SUBSIDIARIES (continued)

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

As at 31 December 2020, the total non-controlling interests of HK\$476,959 thousand comprise of Qiniu BOCOM International No. 1 Equity Fund with HK\$21,787 thousand, BOCOM Science and Technology Innovation Equity Investment Fund (Shanghai) Partnership Enterprise L.P. with HK\$342,023 thousand, Qingdao BOCOM Haikong Science and Technology Innovation Equity Investment Partnership Enterprise L.P. with HK\$107,062 thousand and Jiaxing Hengsheng Equity Investment Fund Partnership Enterprise L.P. with HK\$6,087 thousand.

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 International No. 1 Equity Fund

	2020 HK\$'000	2019 HK\$'000
<b>Current assets</b>	<b>9</b>	64
<b>Current liabilities</b>	<b>(112)</b>	(55)
<b>Current net (liabilities)/assets</b>	<b>(103)</b>	9
<b>Non-current assets</b>	<b>35,650</b>	35,615
<b>Non-current liabilities</b>	<b>–</b>	–
<b>Non-current net assets</b>	<b>35,650</b>	35,615
<b>Net assets</b>	<b>35,547</b>	35,624
<b>Accumulated non-controlling interests</b>	<b>21,787</b>	22,417
<b>Revenue</b>	<b>–</b>	–
(Loss)/profit for the year	(2,663)	1,402
Other comprehensive income/(loss)	–	–
<b>Total comprehensive (loss)/income</b>	<b>(2,663)</b>	1,402
<b>(Loss)/profit allocated to non-controlling interests</b>	<b>(1,632)</b>	860
<b>Dividends paid to non-controlling interests</b>	<b>–</b>	–
Cash flows to operating activities	(59)	(40)
Cash flows to investing activities	–	(34,385)
Cash flows from financing activities	–	34,489
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(59)</b>	64

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 18. INVESTMENT IN SUBSIDIARIES (continued)

BOCOM Science and Technology Innovation Equity Investment Fund (Shanghai) Partnership Enterprise L.P.

	2020 HK\$'000	2019 HK\$'000
<b>Current assets</b>	<b>116,289</b>	102,433
<b>Current liabilities</b>	<b>(337)</b>	(797)
<b>Current net assets</b>	<b>115,952</b>	101,636
<b>Non-current assets</b>	<b>348,222</b>	53,186
<b>Non-current liabilities</b>	<b>–</b>	–
<b>Non-current net assets</b>	<b>348,222</b>	53,186
<b>Net assets</b>	<b>464,174</b>	154,822
<b>Accumulated non-controlling interests</b>	<b>342,023</b>	77,411
<b>Revenue</b>	<b>19,123</b>	–
Profit/(loss) for the year	14,381	(1,575)
Other comprehensive income/(loss)	–	–
<b>Total comprehensive income/(loss)</b>	<b>14,381</b>	(1,575)
<b>Profit/(loss) allocated to non-controlling interests</b>	<b>10,596</b>	(788)
<b>Dividends paid to non-controlling interests</b>	<b>–</b>	–
Cash flows to operating activities	(316,975)	(778)
Cash flows to investing activities	(974)	(53,186)
Cash flows from financing activities	283,717	156,397
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(34,232)</b>	102,433

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 18. INVESTMENT IN SUBSIDIARIES (continued)

	Qingdao BOCOM Haikong Science and Technology Innovation Equity Investment Partnership Enterprise L.P. 2020 HK\$'000	Jiaxing Hengsheng Equity Investment Fund Partnership Enterprise L.P. 2020 HK\$'000
<b>Current assets</b>	<b>131,085</b>	<b>1,310</b>
<b>Current liabilities</b>	<b>(59)</b>	<b>(59)</b>
<b>Current net assets</b>	<b>131,026</b>	<b>1,251</b>
<b>Non-current assets</b>	<b>83,097</b>	<b>22,569</b>
<b>Non-current liabilities</b>	<b>–</b>	<b>–</b>
<b>Non-current net assets</b>	<b>83,097</b>	<b>22,569</b>
<b>Net assets</b>	<b>214,123</b>	<b>23,820</b>
<b>Accumulated non-controlling interests</b>	<b>107,062</b>	<b>6,087</b>
<b>Revenue</b>	<b>–</b>	<b>–</b>
Loss for the year	(1,824)	(98)
Other comprehensive income/(loss)	–	–
<b>Total comprehensive income loss</b>	<b>(1,824)</b>	<b>(98)</b>
<b>Loss allocated to non-controlling interests</b>	<b>(912)</b>	<b>(26)</b>
<b>Dividends paid to non-controlling interests</b>	<b>–</b>	<b>–</b>
Cash flows to operating activities	(84,967)	(22,610)
Cash flows from financing activities	216,052	23,920
<b>Net increase in cash and cash equivalents</b>	<b>131,085</b>	<b>1,310</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 19. INTEREST IN ASSOCIATES

	2020 HK\$'000	2019 HK\$'000
Unlisted investment at the beginning of the year	372,006	213,401
Addition for the year	55	158,664
Transfer during the year	(195,375)	(59)
	<b>176,686</b>	<b>372,006</b>
Profit after acquisition		
– As at 1 January	26,723	152
– Share of (loss)/profit for the year	(10,413)	26,571
Distribution for the year	(86)	–
Transfer during the year	10,253	–
Accumulated exchange difference arising from translation of foreign operations	7,996	(4,765)
Interest in associates	<b>211,159</b>	<b>393,964</b>

\* On 1 October 2020, BIAM Leveraged Credit Fund SP became a subsidiary of the Group due to its control over the fund, for a transfer of HK\$185,122 thousand.

Set out below is the associates of the Group as at 31 December 2020 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	2020	2019	Directly held/ Indirectly held
BIAM Leveraged Credit Fund SP	Cayman Islands, Investment fund	Investment trading	Equity	USD78,278,459	–	33.12%	Directly
Cross-border Interbank Payment System Co., Ltd.* 跨境銀行間支付清算有限責任公司	Shanghai, Limited Liability Company	Clearing	Equity	RMB2,380,000,000	3.14%	3.14%	Indirectly
Jiaying Henghao Equity Investment L.P.* 嘉興恒昊股權投資基金合夥企業（有限合夥）	Jiaying, Limited Partnership	Private equity investment	Equity	RMB153,069,000	9.79%	9.79%	Indirectly
State Grid Yingda Industry Investment Funds Management Co., Ltd.* 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	10%	10%	Indirectly

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 19. INTEREST IN ASSOCIATES (continued)

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

Cross-border Interbank Payment System Co., Ltd.

	2020 HK\$'000	2019 HK\$'000
<b>Current assets</b>	<b>2,927,834</b>	2,751,081
<b>Non-current assets</b>	<b>9,380</b>	1,693
<b>Current liabilities</b>	<b>47,395</b>	24,245
<b>Non-current liabilities</b>	–	–
<b>Non-controlling interests</b>	–	–
<b>Net assets</b>	<b><u>2,889,819</u></b>	<u>2,728,529</u>
<b>Net assets attributable to shareholders</b>	<b><u>2,889,819</u></b>	<u>2,728,529</u>
<b>Reconciled to the Group's interest in the associate:</b>		
Group's effective interest	<b>3.14%</b>	3.14%
<b>Group's share of net assets of the associate</b>	<b><u>94,874</u></b>	<u>88,736</u>
<b>Carrying amount</b>	<b><u>94,874</u></b>	<u>88,736</u>
<b>Revenue</b>	<b><u>47,484</u></b>	<u>39,345</u>
<b>Loss after taxation</b>	<b><u>(30,336)</u></b>	<u>(28,741)</u>
<b>Reconciled to the Group's share of results of the associate:</b>		
Group's effective interest	<b>3.14%</b>	3.14%
<b>Group's share of loss after taxation of the associate for the year</b>	<b><u>(93)</u></b>	<u>–</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 19. INTEREST IN ASSOCIATES (continued)

State Grid Yingda Industry Investment Funds Management Co., Ltd.

	2020 HK\$'000	2019 HK\$'000
<b>Current assets</b>	<b>1,353,285</b>	363,683
<b>Non-current assets</b>	<b>1,507,255</b>	537,676
<b>Current liabilities</b>	<b>8,953</b>	4,285
<b>Non-current liabilities</b>	<b>–</b>	–
<b>Non-controlling interests</b>	<b>2,112,253</b>	229,606
<b>Net assets</b>	<b>739,334</b>	667,468
<b>Net assets attributable to shareholders</b>	<b>739,334</b>	667,468
<b>Reconciled to the Group's interest in the associate:</b>		
Group's effective interest	10%	10%
<b>Group's share of net assets of the associate</b>	<b>73,661</b>	66,783
<b>Carrying amount</b>	<b>73,661</b>	66,783
<b>Revenue</b>	<b>35,011</b>	7,993
<b>Profit after taxation</b>	<b>21,906</b>	1,949
<b>Reconciled to the Group's share of results of the associate:</b>		
Group's effective interest	10%	10%
<b>Group's share of profit after taxation of the associate for the year</b>	<b>2,191</b>	231

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 19. INTEREST IN ASSOCIATES (continued)

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

	2020 HK\$'000	2019 HK\$'000
Aggregate carrying amounts of individually immaterial associates	<b>42,624</b>	21,811
Aggregate amounts of the Group's share of:		
Profit	<b>19,001</b>	5,436
Other comprehensive income	–	–
Total comprehensive income	<b>19,001</b>	5,436

## 20. INTEREST IN JOINT VENTURES

	2020 HK\$'000	2019 HK\$'000
Balance at the beginning of the year	<b>33,274</b>	2,915
Addition for the year	<b>86,497</b>	31,762
Share of profit/(loss) for the year	<b>734</b>	(91)
Distribution for the year	<b>(15)</b>	(1,694)
Exchange difference arising from translation of foreign operations	<b>3,830</b>	382
Balance at end of year	<b>124,320</b>	33,274

On 30 December 2020, the Group invested in Dong Feng BOCOM Yuan Jing Auto Industry Equity Investment Fund (Wuhan) Partnership Enterprise L.P. for a consideration of RMB60,700 thousand. As at 31 December 2020, the net assets of the joint venture mainly comprised cash and cash equivalents.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 20. INTEREST IN JOINT VENTURES (continued)

Set out below is the joint ventures of the Group as at 31 December 2020 which, in the opinion of the directors, are material to the Group:

Name of entity	Place of incorporation, operation and kind of legal entity	Principal activities	Measurement method	Issued and fully paid-up capital	2020	2019	Directly held/ Indirectly held
Baise BOCOM Fudi Poverty-relief and Development Fund L.P.* 百色交銀福地扶貧開發基金合夥企業 (有限合夥)	Baise, Limited Partnership	Investment trading	Equity	RMB301,000,000	0.02%	0.02%	Indirectly
Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund Partnership Enterprise L.P.* 重慶兩江新區博科股權投資基金合夥企業 (有限合夥)	Chong Qing, Limited Partnership	Investment trading	Equity	RMB57,000,000	14.16%	16.39%	Indirectly
Dong Feng BOCOM Yuan Jing Auto Industry Equity Investment Fund (Wuhan) Partnership Enterprise L.P.* 東風交銀轆標汽車產業股權投資基金 (武漢) 合夥企業 (有限合夥)	Wuhan, Limited Partnership	Investment trading	Equity	RMB61,700,000	37.5%	-	Directly and indirectly
Nanjing BOCOM Suyan & SOHO Equity Investment Partnership Enterprise L.P.* 南京交銀蘇鹽蘇豪股權投資合夥企業 (有限合夥)	Nanjing, Limited Partnership	Investment trading	Equity	RMB33,300,000	40%	-	Indirectly
Ningbo Bocom I Equity Investment Limited L.P.* 寧波交銀一期股權投資合夥企業 (有限合夥)	Ningbo, Limited Partnership	Investment trading	Equity	RMB17,431,300	0.17%	0.17%	Indirectly

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 20. INTEREST IN JOINT VENTURES (continued)

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

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

	2020 HK\$'000	2019 HK\$'000
<b>Current assets</b>		
Cash and cash equivalents	9,696	7,409
Other current assets	74,194	55,567
<b>Total current assets</b>	<u>83,890</u>	<u>62,976</u>
<b>Total non-current assets</b>	<u>–</u>	<u>–</u>
Other payables	80	3
<b>Total current liabilities</b>	<u>80</u>	<u>3</u>
<b>Total non-current liabilities</b>	<u>–</u>	<u>–</u>
<b>Net assets</b>	<u>83,810</u>	<u>62,973</u>
<b>Reconciled to the Group's interest in the joint venture:</b>		
Group's effective interest	51%	51%
<b>Group's share of net assets of the joint venture</b>	<u>35,251</u>	<u>32,106</u>
<b>Carrying amount</b>	<u>35,251</u>	<u>32,106</u>
<b>Revenue</b>	<u>–</u>	<u>–</u>
<b>Profit/(loss) after taxation</b>	<u>16,639</u>	<u>(251)</u>
<b>Reconciled to the Group's share of results of the joint venture:</b>		
Group's effective interest	51%	51%
<b>Group's share of profit/(loss) after taxation of the joint venture for the year</b>	<u>911</u>	<u>(128)</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 20. INTEREST IN JOINT VENTURES (continued)

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

	2020 HK\$'000	2019 HK\$'000
Aggregate carrying amounts of individually immaterial joint ventures	<u>17,063</u>	<u>1,168</u>
Aggregate amounts of the Group's share of:		
Loss after taxation	(140)	–
Other comprehensive income	<u>–</u>	<u>–</u>
Total comprehensive loss	<u>(140)</u>	<u>–</u>

## 21. OTHER ASSETS

	2020 HK\$'000	2019 HK\$'000
Central Clearing and Settlement System – Guarantee Fund	31,671	11,499
Contribution in cash to Compensation Fund of SEHK	150	150
Contribution in cash to the Fidelity Fund of SEHK	150	150
Reserve fund deposits with the Hong Kong Futures Exchange (“HKFE”) Clearing Corporation Limited	1,500	2,757
Reserve fund deposits with the SEHK Options Clearing House Limited (“SEOCH”)	7,051	9,504
Admission fee paid to the Hong Kong Securities Clearing Company Limited	150	150
Stamp duty deposit	<u>500</u>	<u>500</u>
	<u>41,172</u>	<u>24,710</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 22. FINANCIAL ASSETS AND LIABILITIES

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

Financial assets at fair value through other comprehensive income

	At 31 December 2020			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Designated at fair value through other comprehensive income upon initial recognition</b>				
Equity securities	8,101	–	–	8,101
Preference shares	323,394	–	–	323,394
Unlisted equity	–	–	7,107	7,107
	<u>331,495</u>	<u>–</u>	<u>7,107</u>	<u>338,602</u>
<b>Mandatorily measured at fair value through other comprehensive income</b>				
Debt investments*	2,600,884	41,771	–	2,642,655
	<u>2,932,379</u>	<u>41,771</u>	<u>7,107</u>	<u>2,981,257</u>
Analysed for reporting purposes:				
Non-current				2,488,616
Current				<u>492,641</u>
				<u>2,981,257</u>

\* During the Reporting Period, debt investments were transferred from Level 1 to Level 2 due to the fact that these financial instruments were not actively traded in the market.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 22. FINANCIAL ASSETS AND LIABILITIES (continued)

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

	At 31 December 2019			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total 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 equities	–	–	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	<u>3,635,117</u>	<u>–</u>	<u>155,460</u>	<u>3,790,577</u>
	<u>4,390,530</u>	<u>–</u>	<u>240,009</u>	<u>4,630,539</u>
Analysed for reporting purposes:				
Non-current				<u>3,172,930</u>
Current				<u>1,457,609</u>
				<u>4,630,539</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 22. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets at fair value through profit or loss

	At 31 December 2020			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Equity securities	2,390,883	–	–	2,390,883
Debt investments	3,751,563	324,744	–	4,076,307
Preference shares	148,385	–	1,211,635	1,360,020
Club debenture	–	–	2,089	2,089
Funds	50,100	–	–	50,100
Unlisted funds	–	–	1,744,158	1,744,158
Structured financial products	–	–	195,476	195,476
Unlisted equities	–	–	586,515	586,515
	<b>6,340,931</b>	<b>324,744</b>	<b>3,739,873</b>	<b>10,405,548</b>

As at 31 December 2020, structured financial products in the ultimate holding company was HK\$178,065 thousand (31 December 2019: Nil).

	At 31 December 2019			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Equity securities	214,459	–	–	214,459
Debt investments	2,754,622	–	–	2,754,622
Preference shares	–	–	1,238,733	1,238,733
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 products	–	–	106,879	106,879
Unlisted equities	–	–	97,416	97,416
	<b>3,003,253</b>	<b>–</b>	<b>3,504,300</b>	<b>6,507,553</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 22. FINANCIAL ASSETS AND LIABILITIES (continued)

## Derivative financial assets

	At 31 December 2020			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Futures contracts*	24,199	–	–	24,199
Currency swaps	–	168	–	168
	<u>24,199</u>	<u>168</u>	<u>–</u>	<u>24,367</u>

	At 31 December 2019			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Futures contracts*	701	–	–	701
Currency swaps	1,494	–	–	1,494
Total return swaps	29	–	–	29
	<u>2,224</u>	<u>–</u>	<u>–</u>	<u>2,224</u>

\* Futures contracts represented derivative transactions in respect of commodities.

## Financial liabilities at fair value through profit or loss

	At 31 December 2020			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial liabilities to the investors of the funds consolidated	(168,222)	–	–	(168,222)
Notes payable	–	(472,986)	–	(472,986)
Structured note payable	–	–	(22,047)	(22,047)
	<u>(168,222)</u>	<u>(472,986)</u>	<u>(22,047)</u>	<u>(663,255)</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 22. FINANCIAL ASSETS AND LIABILITIES (continued)

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

	At 31 December 2019			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
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>

Derivative financial liabilities

	At 31 December 2020			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Futures contracts*	–	(24,035)	–	(24,035)
Total return swaps	–	(2,310)	–	(2,310)
Others	–	–	(7,790)	(7,790)
	<u>–</u>	<u>(26,345)</u>	<u>(7,790)</u>	<u>(34,135)</u>

	At 31 December 2019			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Futures contracts*	–	(690)	–	(690)
Total return swaps	–	(2,252)	–	(2,252)
	<u>–</u>	<u>(2,942)</u>	<u>–</u>	<u>(2,942)</u>

\* Futures contracts represented derivative transactions in respect of commodities.

Details of disclosure for fair value measurement are set out in Note 39.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 23. LOANS AND ADVANCES

	2020 HK\$'000	2019 HK\$'000
Gross loans and advances	<b>2,804,945</b>	2,334,252
Less: impairment allowance	<b>(1,182)</b>	(7,757)
	<b><u>2,803,763</u></b>	<u>2,326,495</u>
Net loans and advances:		
Non-current	<b>1,095,098</b>	1,509,172
Current	<b>1,708,665</b>	817,323
	<b><u>2,803,763</u></b>	<u>2,326,495</u>

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

There was no past due but not impaired loans and advances as at 31 December 2020 and 31 December 2019.

## 24. ACCOUNTS RECEIVABLE

	2020 HK\$'000	2019 HK\$'000
Corporate finance and underwriting business	<b>28,685</b>	14,498
Dealing in securities and futures business		
– Clients	<b>388,091</b>	106,816
– Brokers	<b>498,562</b>	126,883
– Clearing house	<b>196,186</b>	265,788
	<b><u>1,082,839</u></b>	<u>499,487</u>
Less: impairment allowance	<b>(3,441)</b>	(2,056)
	<b><u>1,108,083</u></b>	<u>511,929</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 24. ACCOUNTS RECEIVABLE (continued)

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

	2020 HK\$'000	2019 HK\$'000
Neither past due nor credit-impaired	<b>1,097,714</b>	510,474
Less than 31 days past due	<b>2,270</b>	22
31–60 days past due	–	2
61–90 days past due	–	–
Over 90 days past due	<b>11,540</b>	3,487
	<b>13,810</b>	3,511
Less: impairment allowance	<b>(3,441)</b>	(2,056)
	<b><u>1,108,083</u></b>	<b><u>511,929</u></b>

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.

	2020 HK\$'000	2019 HK\$'000
Total market value of securities pledged as collateral in respect of the overdue accounts receivable – clients	<b><u>679,514</u></b>	<b><u>268,878</u></b>

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 25. OTHER RECEIVABLES AND PREPAYMENTS

	2020 HK\$'000	2019 HK\$'000
Other receivables	<b>430,666</b>	296,109
Less: impairment allowance	<b>(11,870)</b>	(1,010)
	<b>418,796</b>	295,099
Prepayments	<b>27,343</b>	51,363
	<b>446,139</b>	346,462

## 26. MARGIN LOANS TO CUSTOMERS

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

	2020 HK\$'000	2019 HK\$'000
Gross margin loans to customers	<b>2,881,803</b>	2,774,924
Less: impairment allowance	<b>(82,678)</b>	(95,684)
Net margin loans to customers	<b>2,799,125</b>	2,679,240

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

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 26. MARGIN LOANS TO CUSTOMERS (continued)

	2020 HK\$'000	2019 HK\$'000
<b>Margin loans to customers analysed by nature</b>		
Institutions	<b>1,652,561</b>	1,695,877
Individuals	<b>1,146,564</b>	983,363
	<b><u>2,799,125</u></b>	<u>2,679,240</u>
<b>Total market value of securities pledged as collateral in respect of margin loans to customers analysed by collateral</b>		
Stocks	<b>9,912,845</b>	11,203,210
Debt securities	<b>359,220</b>	360,298
	<b><u>10,272,065</u></b>	<u>11,563,508</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.

## 27. RECEIVABLE FROM REVERSE REPURCHASE AGREEMENTS

	2020 HK\$'000	2019 HK\$'000
Gross receivable from reverse repurchase agreements	<b>237,356</b>	604,583
Less: impairment allowance	<b>(6)</b>	–
	<b><u>237,350</u></b>	<u>604,583</u>
Net receivable from reverse repurchase agreements:		
Non-current	–	224,987
Current	<b>237,350</b>	379,596
	<b><u>237,350</u></b>	<u>604,583</u>

As at 31 December 2020, the fair value of the collateral allowed for repledging for the outstanding receivable was HK\$544,650 thousand (31 December 2019: HK\$1,167,434 thousand).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 28. 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.

## 29. CASH AND BANK BALANCES

	2020 HK\$'000	2019 HK\$'000
Current and savings accounts	2,000,291	540,455
Time deposits with original maturity of more than three months	1,634	1,696
Restricted cash	2,990	2,990
	<u>2,004,915</u>	<u>545,141</u>

Bank balances carry interest at market rates

	2020	2019
Interest rates range	<u>0.01%–2.0%</u>	<u>0.01%–1.9%</u>

As at 31 December 2020, bank balances in the ultimate holding company and a fellow subsidiary were HK\$1,885,721 thousand (31 December 2019: HK\$314,942 thousand) and HK\$1,515 thousand (31 December 2019: HK\$18,684 thousand) respectively.

## 30. OTHER PAYABLES AND ACCRUED EXPENSES

	2020 HK\$'000	2019 HK\$'000
Other payables	100,898	29,195
Accrued expenses	27,723	38,018
	<u>128,621</u>	<u>67,213</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 31. ACCOUNTS PAYABLE

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

	2020 HK\$'000	2019 HK\$'000
Clients – trade settlement	<b>512,487</b>	367,768
Clearing house	<b>100,158</b>	36,679
Brokers	–	996
	<b><u>612,645</u></b>	<u>405,443</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 these businesses.

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

## 32. CONTRACT LIABILITIES

	2020 HK\$'000	2019 HK\$'000
Contract liabilities	<b><u>51,431</u></b>	<u>55,479</u>

The obligation of the Group to transfer advisory and management and other 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 2020

## 33. DEFERRED TAXATION

The analysis of deferred tax balances of the Group is as follows:

	2020 HK\$'000	2019 HK\$'000
Deferred tax assets	<b>10,876</b>	10,758
Deferred tax liabilities	<b>(45,789)</b>	–
	<b>(34,913)</b>	<b>10,758</b>

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

	Provision for staff costs HK\$'000	Accrued expenses HK\$'000	Tax loss HK\$'000	Allowance for impairment loss HK\$'000	Accelerated tax depreciation HK\$'000	Unrealised trading profit HK\$'000	Leases HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2019	363	49	5,260	13,291	–	–	–	(278)	18,685
Credited/(charged) to consolidated income statement	5	44	4,470	(12,140)	–	–	–	(10)	(7,631)
Exchange difference arising from translation of foreign operations	–	–	–	–	–	–	–	(296)	(296)
At 31 December 2019	368	93	9,730	1,151	–	–	–	(584)	10,758
Credited/(charged) to consolidated income statement	–	–	25,527	440	592	(72,845)	403	(463)	(46,346)
Exchange difference arising from translation of foreign operations	–	–	–	–	–	–	–	675	675
At 31 December 2020	<u>368</u>	<u>93</u>	<u>35,257</u>	<u>1,591</u>	<u>592</u>	<u>(72,845)</u>	<u>403</u>	<u>(372)</u>	<u>(34,913)</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 Hong Kong and PRC entities.

At the end of the Reporting Period, the Group had estimated unrecognised tax losses of HK\$209,872 thousand (2019: HK\$264,972 thousand) available to offset against future profits. The deductible temporary difference and tax losses have not been recognised as it is uncertain that there will be sufficient future taxable profits available for the utilisation of these temporary differences. The unrecognised tax losses included a sum of HK\$47,075 thousand that will expire in 5 years (2019: HK\$27,542 thousand will expire in 5 years).

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 34. SHARE CAPITAL

	Number of shares		Share capital	
	2020 Thousand Shares	2019 Thousand Shares	2020 HK\$'000	2019 HK\$'000
<b>Issued and fully paid</b>				
At the end of the reporting period	<b><u>2,734,392</u></b>	<b><u>2,734,392</u></b>	<b><u>3,942,216</u></b>	<b><u>3,942,216</u></b>

## 35. BORROWINGS

### (a) Outstanding borrowings

	2020 HK\$'000	2019 HK\$'000
Bank loans and other borrowings		
Non-current – ultimate holding company (Note 36)	–	450,000
Non-current – authorised institutions	–	4,514,230
	–	<u>4,964,230</u>
Current – ultimate holding company (Note 36)	<b>450,000</b>	–
Current – authorised institutions	<b>8,183,885</b>	3,216,467
	<b><u>8,633,885</u></b>	<u>3,216,467</u>
Obligation under repurchase agreements		
Non-current	<b>313,835</b>	248,915
Current	<b>3,755,772</b>	1,222,714
	<b><u>4,069,607</u></b>	<u>1,471,629</u>
Subordinated loans (Note 36)		
Non-current	<b>1,000,000</b>	1,000,000
Total	<b><u>13,703,492</u></b>	<b><u>10,652,326</u></b>

As at 31 December 2020, the carrying amount included within financial assets sold under repurchase agreements was HK\$5,272,042 thousand (31 December 2019: HK\$1,214,328 thousand).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 35. BORROWINGS (continued)

## (b) Borrowings repayable

	2020 HK\$'000	2019 HK\$'000
Bank loans and other borrowings		
Within 1 year	12,389,657	4,439,181
Between 1 and 2 years	183,690	5,213,145
Between 2 and 5 years	130,145	–
	<u>12,703,492</u>	<u>9,652,326</u>
Undated	1,000,000	1,000,000
	<u>13,703,492</u>	<u>10,652,326</u>

As at 31 December 2020 and 31 December 2019, all bank borrowings were unsecured.

## 36. RELATED PARTY TRANSACTIONS

Details of the Company's subsidiaries, associates and joint ventures are disclosed in Note 18, 19 and 20. In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following transactions with related parties:

## (a) Ultimate holding company

	2020 HK\$'000	2019 HK\$'000
<b>Transaction</b>		
Interest income from deposits*	4,597	5,020
Finance costs	50,163	55,246
Commission expenses*	2,220	2,022
Asset management and advisory income*	2,765	3,539
Fund management fee income*	19,553	19,787
Underwriting fee income*	3,920	312
Rental expenses*	841	280
Other operating expenses*	471	192
Other operating expenses	1,278	1,311
Trading gain from derivative transactions*	191,984	–
Trading loss from derivative transactions*	–	15,527
Realised gain on financial assets at fair value through profit or loss	25	2,025
Unrealised gain on financial assets at fair value through profit or loss	–	12
Unrealised loss on financial assets at fair value through profit or loss	12	–
	<u>12</u>	<u>–</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 36. RELATED PARTY TRANSACTIONS (continued)

### (a) Ultimate holding company (continued)

To clarify the inadvertent clerical errors in the annual report 2019, HK\$15,527 thousand of “trading gain” should read “trading loss” from derivative transactions for the year ended 31 December 2019. The comparative figures have been restated. There is no impact on the profit before taxation for the corresponding period.

	2020 HK\$'000	2019 HK\$'000
<b>Balance of transaction</b>		
Derivative financial assets	–	701
Derivative financial liabilities	<b>24,035</b>	–
Borrowings	<b>450,000</b>	450,000
Subordinated loans	<b>1,000,000</b>	1,000,000
Amount due to the ultimate holding company	<b>33,759</b>	5,459

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

	2020 HK\$'000	2019 HK\$'000
<b>Transaction</b>		
Interest income from deposits*	<b>28</b>	29
Commission income*	<b>10,799</b>	7,388
Commission expenses*	<b>4,305</b>	1,709
Asset management and advisory income	<b>5,265</b>	1,903
Underwriting fee income*	<b>3,978</b>	5,494
Rental expenses*	<b>9,191</b>	8,883
Other operating expenses*	<b>3,191</b>	2,586
Other operating expenses	<b>20</b>	–
Fund management fee income	<b>8,877</b>	3,053
Other income	<b>277</b>	–

	2020 HK\$'000	2019 HK\$'000
<b>Balance of transaction</b>		
Accounts payable	<b>166,218</b>	95,922
Amount due from a fellow subsidiary	<b>5,857</b>	–
Amount due from an associate	–	547
Amount due to a fellow subsidiary	–	55

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 36. RELATED PARTY TRANSACTIONS (continued)

## (c) Related parties

	2020 HK\$'000	2019 HK\$'000
<b>Transaction</b>		
Interest income from debt investment	–	2,631
Fund management fee income	<u>14,174</u>	<u>16,351</u>
	2020 HK\$'000	2019 HK\$'000
<b>Balance of transaction</b>		
Gross amounts due from related parties	1,270	1,941
Less: impairment allowance	<u>(1)</u>	<u>(4)</u>
	<u>1,269</u>	<u>1,937</u>

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

## 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, Macau 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 fellow subsidiaries in respect of the securities brokerage transactions. The rates were mutually agreed by the ultimate holding company/fellow subsidiaries and the Group.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 36. RELATED PARTY TRANSACTIONS (continued)

Notes (continued)

(v) Asset management and advisory income

The Group has agreements with its ultimate holding company, associates and joint ventures 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 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, BIAM Everbright Fund SPV 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 fellow subsidiaries in relation to notes issuance.

(viii) Interest income from debt investment

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

(ix) Borrowings

A portion of the bank loan was obtained from the ultimate holding company, that are unsecured and bear floating interest. Details of the bank loan are stated in Note 35(a).

(x) Subordinated loans

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

(xi) Rental expenses

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

(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, printing and stationery, insurance and management fee expense.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 36. RELATED PARTY TRANSACTIONS (continued)

Notes (continued)

## (xiii) Other income

Other income represented insurance claim from a fellow subsidiary.

## (xiv) Trading gain/loss and derivative financial assets and liabilities from derivative transactions

Trading gain/loss and derivative financial assets and liabilities from derivatives transactions represented gain/loss 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.

## (xv) Accounts receivable and accounts payable

They were balances due from/to a fellow subsidiary in the Group's ordinary course of business. For the year ended 31 December 2020, the Group has considered the disclosures of accounts payable to ultimate holding company and a fellow subsidiary with reference to the nature and counterparty of the balances. Accordingly, the comparative figures have been re-presented. There was no impact on the consolidated statement of financial position for the corresponding period.

## (xvi) 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.

## (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 executives.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 9, is as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries and other short-term employee benefits	18,755	20,675
Termination benefits	–	–
Post-employment benefits	–	–
Other long-term benefits	2,409	1,705
Share-based payments	–	–
	<u>21,164</u>	<u>22,380</u>

For details of the key management personnel of the Group in 2020, 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 2020

## 37. STRUCTURED ENTITIES

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

### (a) Unconsolidated structured entities

The Group has been involved in unconsolidated structured entities through investments in structured entities or acting as the investment manager of the structured entities. The unconsolidated structured entities consist primarily of special purpose vehicles ("SPV") for investment trading on asset management business. The SPVs invest in a range of assets, most typically are bonds, unit trusts and preference shares. As the manager of the structured entities, the Group invests, on behalf of its clients, in the assets as described in the investment plan related to each fund and receives management fee income. The Group's remuneration as investment manager is limited to management fees and performance fees at market level and does not share significant variable returns of the investment. 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 2020 and 2019, 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:

	2020 HK\$'000	2019 HK\$'000
Financial assets at fair value through other comprehensive income	–	208,821
Financial assets at fair value through profit or loss	50,100	34,172
Maximum exposure to loss	<u>3,036,752</u>	<u>3,228,431</u>

The Group has entered into an asset management service agreement with a client which provides a minimum return guarantee on the principal amounts on a cumulative basis throughout the life of the service contracts. In addition to an asset management fee at a fixed rate based on the capital amount, the Group is also entitled to a performance fee if the returns, on a cumulative basis, are above certain level. As at 31 December 2020 and 2019, the fair value of guarantee return is close to zero. The maximum exposure to loss of the service contracts is the aggregate amount of principal and guarantee return of HK\$2,986,652 thousand (2019: HK\$2,985,438 thousand).

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 37. 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 2020 and 2019, the fair value of investments managed by the unconsolidated structured entities is summarised in the table below:

	2020 HK\$'000	2019 HK\$'000
Fair value of investments managed by the unconsolidated structure entities	<u>17,699,160</u>	<u>17,646,700</u>

*Transactions with unconsolidated structured entities*

For the years ended 31 December 2020 and 2019, 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:

	2020 HK\$'000	2019 HK\$'000
Management fee income	39,424	42,648
Interest income	7,077	2,631
	<u>46,501</u>	<u>45,279</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 37. STRUCTURED ENTITIES (continued)

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

The Group has consolidated certain structured entities which are investment funds. 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. 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 of consolidated structured entities. As at 31 December 2020 and 2019, the fair value of investments of consolidated structured entities is summarised in the table below:

	2020 HK\$'000	2019 HK\$'000
Fair value of investments of the consolidated structured entities	<u>918,279</u>	<u>759,532</u>

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

During the years ended 31 December 2020 and 2019, 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 2020 and 2019. 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 2020

## 38. COMMITMENTS

## Operating leases commitments

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

	2020 HK\$'000	2019 HK\$'000
No later than 1 year	–	13
Later than 1 year and no later than 5 years	–	–
	<u>–</u>	<u>13</u>

## 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.

	2020 HK\$'000	2019 HK\$'000
Unfunded commitments	<u>84,816</u>	<u>169,575</u>

## Loan commitments

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

	2020 HK\$'000	2019 HK\$'000
Under 1 year	–	97,163
Later than 1 year and no later than 5 years	–	–
	<u>–</u>	<u>97,163</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT

### 39.1 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, other assets, accounts and other receivables, loans and advances, margin loans to customers, receivable from reverse repurchase agreements, amounts due from an associate, a fellow subsidiary and related parties, cash and bank balances, accounts payable, borrowings, obligation under repurchase agreements, lease liabilities, subordinated loans from the ultimate holding company and amounts due to the ultimate holding company and 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: credit risk, market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and other price risk), and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group, from time to time, uses derivative financial instruments to hedge certain risk exposures.

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

The COVID-19 pandemic has significantly increased the level of uncertainty of global economics, which brought challenges to the Group on the financial risks management including credit risk, market risk and liquidity risk. During the Reporting Period, there were no material changes to the principles and policies for the management of risk. However, in response to the pandemic, appropriate measures were exercised by the Group as and when required. The Group has been actively managing the risk resulting from the pandemic and its impact on the Group's operations and its financial risks during 2020.

#### (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 risk. 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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (i) Summary of financial assets and liabilities

	2020 HK\$'000	2019 HK\$'000
<b>Financial assets</b>		
Other assets	41,172	24,710
Loans and advances	2,803,763	2,326,495
Accounts receivable	1,108,083	511,929
Other receivables	418,796	295,099
Margin loans to customers	2,799,125	2,679,240
Receivable from reverse repurchase agreements	237,350	604,583
Amount due from a fellow subsidiary	5,857	–
Amount due from an associate	–	547
Amounts due from related parties	1,269	1,937
Financial assets at fair value through other comprehensive income	2,981,257	4,630,539
Financial assets at fair value through profit or loss	10,405,548	6,507,553
Derivative financial assets	24,367	2,224
Cash and bank balances	2,004,915	545,141
	<b>22,831,502</b>	<b>18,129,997</b>
<b>Financial liabilities</b>		
Borrowings	8,633,885	8,180,697
Subordinated loans from the ultimate holding company	1,000,000	1,000,000
Obligation under repurchase agreements	4,069,607	1,471,629
Other payables	100,898	29,195
Accounts payable	612,645	405,443
Lease liabilities	112,607	76,719
Amount due to the ultimate holding company	33,759	5,459
Amount due to a fellow subsidiary	–	55
Financial liabilities at fair value through profit or loss	663,255	723,871
Derivative financial liabilities	34,135	2,942
	<b>15,260,791</b>	<b>11,896,010</b>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 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 2020				Total HK\$'000
	HKD HK\$'000	USD (in HKD equivalent) HK\$'000	RMB (in HKD equivalent) HK\$'000	Other foreign currencies (in HKD equivalent) HK\$'000	
<b>Financial assets</b>					
Other assets	39,414	–	1,758	–	41,172
Loans and advances	130,170	2,673,593	–	–	2,803,763
Accounts receivable	601,633	480,389	22,701	3,360	1,108,083
Other receivables	87,288	316,936	14,572	–	418,796
Margin loans to customers	2,665,712	133,381	–	32	2,799,125
Receivable from reverse repurchase agreements	–	237,350	–	–	237,350
Amount due from a fellow subsidiary	5,857	–	–	–	5,857
Amounts due from related parties	662	548	59	–	1,269
Financial assets at fair value through other comprehensive income	856	2,973,294	7,107	–	2,981,257
Financial assets at fair value through profit or loss	359,342	9,270,138	776,068	–	10,405,548
Derivative financial assets	–	24,367	–	–	24,367
Cash and bank balances	129,085	276,071	1,584,915	14,844	2,004,915
<b>Total financial assets</b>	<b>4,020,019</b>	<b>16,386,067</b>	<b>2,407,180</b>	<b>18,236</b>	<b>22,831,502</b>
<b>Financial liabilities</b>					
Borrowings	1,000,000	7,633,885	–	–	8,633,885
Subordinated loans from the ultimate holding company	1,000,000	–	–	–	1,000,000
Obligation under repurchase agreements	–	4,069,607	–	–	4,069,607
Other payables	18,829	79,055	3,014	–	100,898
Accounts payable	357,659	248,144	5,896	946	612,645
Lease liabilities	56,877	–	55,730	–	112,607
Amount due to the ultimate holding company	4,685	29,074	–	–	33,759
Financial liabilities at fair value through profit or loss	–	650,183	13,072	–	663,255
Derivative financial liabilities	–	34,135	–	–	34,135
<b>Total financial liabilities</b>	<b>2,438,050</b>	<b>12,744,083</b>	<b>77,712</b>	<b>946</b>	<b>15,260,791</b>
<b>Net on-balance sheet position</b>	<b>1,581,969</b>	<b>3,641,984</b>	<b>2,329,468</b>	<b>17,290</b>	<b>7,570,711</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (ii) Currency risk (continued)

	As at 31 December 2019				Total HK\$'000
	HKD HK\$'000	USD (in HKD equivalent) HK\$'000	RMB (in HKD equivalent) HK\$'000	Other foreign currencies (in HKD equivalent) HK\$'000	
<b>Financial assets</b>					
Other assets	24,015	–	695	–	24,710
Loans and advances	123,595	2,202,900	–	–	2,326,495
Accounts receivable	383,554	104,985	20,140	3,250	511,929
Other receivables	26,701	248,496	18,904	998	295,099
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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 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 exposures are mainly in respect of Renminbi and United States dollar currently. The directors of the Company consider that 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 is 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*

	2020 HK\$'000	2019 HK\$'000
RMB	194,511	25,170
Other foreign currencies	1,444	4,105

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 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 2020	Overdue HK\$'000	Within 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
<b>Financial assets</b>								
Other assets	-	-	-	-	-	-	41,172	41,172
Loans and advances	-	-	309,243	1,399,422	1,095,098	-	-	2,803,763
Accounts receivable	-	1,082,776	-	-	-	-	25,307	1,108,083
Other receivables	-	-	-	-	-	-	418,796	418,796
Margin loans to customers	-	2,799,125	-	-	-	-	-	2,799,125
Receivable from reverse repurchase agreements	-	237,350	-	-	-	-	-	237,350
Amount due from a fellow subsidiary	-	-	-	-	-	-	5,857	5,857
Amounts due from related parties	-	-	-	-	-	-	1,269	1,269
Financial assets at fair value through other comprehensive income	41,771	16,794	267,540	166,536	1,968,794	188,465	331,357	2,981,257
Financial assets at fair value through profit or loss	-	-	178,065	609,871	3,108,831	505,990	6,002,791	10,405,548
Derivative financial assets	-	-	-	-	-	-	24,367	24,367
Cash and bank balances	-	2,003,281	-	1,634	-	-	-	2,004,915
	<u>41,771</u>	<u>6,139,326</u>	<u>754,848</u>	<u>2,177,463</u>	<u>6,172,723</u>	<u>694,455</u>	<u>6,850,916</u>	<u>22,831,502</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

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

As at 31 December 2020	Overdue HK\$'000	Within 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
<b>Financial liabilities</b>								
Borrowings	-	8,633,885	-	-	-	-	-	8,633,885
Subordinated loans from the ultimate holding company	-	1,000,000	-	-	-	-	-	1,000,000
Obligation under repurchase agreements	-	4,069,607	-	-	-	-	-	4,069,607
Other payables	-	-	-	-	-	-	100,898	100,898
Accounts payable	-	-	-	-	-	-	612,645	612,645
Lease liabilities	-	6,121	12,921	37,127	56,438	-	-	112,607
Amount due to the ultimate holding company	-	-	-	-	-	-	33,759	33,759
Financial liabilities at fair value through profit or loss	-	85,021	-	179,126	208,838	-	190,270	663,255
Derivative financial liabilities	-	-	-	-	-	-	34,135	34,135
	-	13,794,634	12,921	216,253	265,276	-	971,707	15,260,791
Interest rate sensitivity gap	41,771	(7,655,308)	741,927	1,961,210	5,907,447	694,455	5,879,209	7,570,711

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (iii) Interest rate risk (continued)

As at 31 December 2019	Overdue HK\$'000	Within 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
<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 repurchase agreements	-	604,583	-	-	-	-	-	604,583
Amount due from an associate	-	-	-	-	-	-	547	547
Amounts due from related parties	-	-	-	-	-	-	1,937	1,937
Financial assets at fair value through other comprehensive income	-	108,800	135,549	1,213,260	2,009,262	323,705	839,963	4,630,539
Financial assets at fair value 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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

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

As at 31 December 2019	Overdue HK\$'000	Within 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000	Total HK\$'000
<b>Financial liabilities</b>								
Borrowings	-	8,180,697	-	-	-	-	-	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	-	-	-	-	-	-	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 holding company	-	-	-	-	-	-	5,459	5,459
Amount due to a fellow subsidiary	-	-	-	-	-	-	55	55
Financial liabilities at fair value through profit or loss	-	-	45,865	524,648	112,833	-	40,525	723,871
Derivative financial liabilities	-	-	-	-	-	-	2,942	2,942
	-	10,657,372	55,905	561,262	137,852	-	483,619	11,896,010
Interest rate sensitivity gap	-	(6,209,375)	79,644	2,332,137	5,489,863	550,986	3,990,732	6,233,987

#### 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", "obligation under 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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (iii) Interest rate risk (continued)

*Cash flow 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.

	2020 HK\$'000	2019 HK\$'000
<b>Assets</b>		
Accounts receivable – dealing in securities and futures	1,082,839	499,487
Margin loans to customers	2,799,125	2,679,240
Receivable from reverse repurchase agreements	237,350	604,583
Loans and advances	2,803,763	2,326,495
Cash and bank balances	2,004,915	545,141
<b>Liabilities</b>		
Borrowings	(8,633,885)	(8,180,697)
Subordinated loans from the ultimate holding company	(1,000,000)	(1,000,000)
Obligation under repurchase agreements	(4,069,607)	(1,471,629)
	<u>(4,775,500)</u>	<u>(3,997,380)</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 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 for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at year end.

*Change in basis points*

	31 December			
	2020		2019	
	+25	-25	+25	-25
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit after taxation	<b>(9,969)</b>	<b>9,969</b>	(8,345)	8,345

##### *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:

	2020	2019
	HK\$'000	HK\$'000
Financial assets at fair value through other comprehensive income – debt	<b>2,642,655</b>	3,790,577
Financial assets at fair value through profit or loss – debt	<b>4,076,307</b>	2,754,622
Financial liabilities at fair value through profit or loss – notes payable	<b>(472,986)</b>	(692,674)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 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			
	2020		2019	
	+25 HK\$'000	-25 HK\$'000	+25 HK\$'000	-25 HK\$'000
Impact on profit after taxation	<b>(25,789)</b>	<b>25,934</b>	(4,507)	4,535
Impact on equity	<b>(11,589)</b>	<b>11,643</b>	(16,571)	16,716

(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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

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

*Financial assets at fair value through other comprehensive income*

	2020 HK\$'000	2019 HK\$'000
Listed equity securities	8,101	1,688
Preference shares	323,394	753,725
Unlisted equities	7,107	84,549
	<u>338,602</u>	<u>839,962</u>
Impact on equity		
Increases by 10%	33,860	83,996
Decreases by 10%	(33,860)	(83,996)

*Financial assets at fair value through profit or loss*

	2020 HK\$'000	2019 HK\$'000
Listed equity securities	2,390,883	214,459
Preference shares	1,360,020	1,238,733
Funds	50,100	34,172
Unlisted funds	1,744,158	1,616,259
Unlisted equities	586,515	97,416
Equity-linked loan	–	443,061
	<u>6,131,676</u>	<u>3,644,100</u>
Impact on profit after taxation		
Increases by 10%	511,995	304,282
Decreases by 10%	(511,995)	(304,282)

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

## (a) Market risk (continued)

## (iv) Other price risk (continued)

*Derivative financial assets*

	2020 HK\$'000	2019 HK\$'000
Futures contracts	24,199	701
Currency swaps	168	1,494
Total return swaps	–	29
	<u>24,367</u>	<u>2,224</u>
Impact on profit after taxation		
Increases by 10%	2,035	186
Decreases by 10%	(2,035)	(186)

*Financial liabilities at fair value through profit or loss*

	2020 HK\$'000	2019 HK\$'000
Financial liabilities to the investors of the funds consolidated	(168,222)	(11,765)
Notes payable	(472,986)	(692,674)
Structure note payable	(22,047)	(19,432)
	<u>(663,255)</u>	<u>(723,871)</u>
Impact on profit after taxation		
Increases by 10%	(55,382)	(60,443)
Decreases by 10%	55,382	60,443

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

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

##### Derivative financial liabilities

	2020 HK\$'000	2019 HK\$'000
Futures contracts	(24,035)	(690)
Total return swaps	(2,310)	(2,252)
Others	(7,790)	–
	<u>(34,135)</u>	<u>(2,942)</u>
Impact on profit after taxation		
Increases by 10%	(2,850)	(246)
Decreases by 10%	2,850	246

#### (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 other assets, loans and advances, accounts receivable, other receivables, margin loans to customers, receivable from reverse repurchase agreements, amount(s) due from a fellow subsidiary/an associate/related parties, debt securities carried at fair value through other comprehensive income and at fair value through profit or loss, derivative financial assets, and cash and bank balances. 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 practices 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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

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

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.

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

	2020 HK\$'000	2019 HK\$'000
Other assets	41,172	24,710
Loans and advances	2,803,763	2,326,495
Accounts receivable	1,108,083	511,929
Other receivables	418,796	295,099
Margin loans to customers	2,799,125	2,679,240
Receivable from reverse repurchase agreements	237,350	604,583
Amount due from a fellow subsidiary	5,857	–
Amount due from an associate	–	547
Amounts due from related parties	1,269	1,937
Financial assets at fair value through other comprehensive income – debt	2,642,655	3,790,577
Financial assets at fair value through profit or loss – debt	4,076,307	2,754,622
Derivative financial assets	24,367	2,224
Cash and bank balances	2,004,915	545,141
Loan commitments	–	97,163
	<b>16,163,659</b>	<b>13,634,267</b>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

##### *Other assets*

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

##### *Loans and advances 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.

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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

### 39. FINANCIAL RISK MANAGEMENT (continued)

#### 39.1 Financial risk factors (continued)

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

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

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

###### *Receivable from reverse repurchase agreements*

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

###### *Accounts receivable*

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

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

The Group applies the HKFRS 9 simplified approach to measure expected credit losses, which uses a lifetime expected loss allowance for accounts receivable of corporate finance and underwriting business.

For accounts receivable arising from the Group's dealing in securities and futures business, the Group applies the "three-stage" ECL model under HKFRS 9.

Evaluations, supplemented by assessments of underlying collaterals, are performed on all clients requiring credit.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

##### *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 “three-stage” 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 alert to help monitor its status and decide whether any additional collateral is required. Amongst the customers with loan-to-margin ratio in excess of 200%, the Group will take into consideration of various factors such as customers’ background and the interest rate of loan, in particular, the loan-to-value ratio in excess of 70% in making requests for additional collateral.

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

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

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

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

### 39. FINANCIAL RISK MANAGEMENT (continued)

#### 39.1 Financial risk factors (continued)

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

###### *Debt securities*

Debt securities are classified as financial assets at fair value through other comprehensive income and at fair value through profit or loss. The debt securities are mainly listed in The Hong Kong Stock Exchange and 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 Company consider that the credit risk arising from cash and bank balances is minimal.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 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*

	2020 HK\$'000	2019 HK\$'000
Standard & Poor's rating:		
BBB+	69,793	68,403
BBB	181,220	255,302
BB	–	134,782
BB–	116,578	93,622
B+	127,471	10,671
B	2,440	–
B–	–	231,695
CCC–	–	84,835
Fitch's rating:		
BBB	90,399	32,186
BBB–	6,297	–
BB+	79,540	78,575
BB	462,507	463,207
BB–	197,534	191,945
B+	15,702	–
B	147,700	–
Moody's rating:		
A3	–	108,800
Baa1	15,724	–
Baa3	80,190	–
Ba2	116,896	120,121
B1	16,697	–
B2	86,857	470,645
B3	136,018	–
Caa1	–	148,566
No rating <sup>(1)</sup>	693,092	1,297,222
	<b>2,642,655</b>	<b>3,790,577</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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

**(b) Credit risk (continued)***Financial assets at fair value through profit or loss – debt*

	2020 HK\$'000	2019 HK\$'000
Standard & Poor's rating:		
A+	3,133	2,373
BBB+	23,484	–
BBB	462,656	–
BBB–	7,866	23,383
BB	19,712	7,288
BB–	3,882	–
B+	77,156	–
B	60,467	92,478
B–	213,166	712,934
Fitch's rating:		
A+	29,295	–
BBB+	185,575	23,269
BBB	124,721	77,965
BBB–	218,887	110,161
BB+	55,156	47,055
BB–	94,884	125,166
B+	196,110	–
B	25,700	278,857
Moody's rating:		
A2	24,167	–
Baa2	153,716	–
Baa3	196,359	–
Ba1	172,595	173,242
Ba3	163,890	–
B2	399,456	139,876
B3	181,243	224,547
No rating <sup>(1)</sup>	983,031	716,028
	<b>4,076,307</b>	<b>2,754,622</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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

##### *Derivative financial assets*

	2020 HK\$'000	2019 HK\$'000
No rating	<u>24,367</u>	<u>2,224</u>

##### *Derivative financial liabilities*

	2020 HK\$'000	2019 HK\$'000
Standard & Poor's rating:		
A-	26,345	690
No rating	<u>7,790</u>	<u>2,252</u>
	<u>34,135</u>	<u>2,942</u>

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

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

While cash and cash equivalents and other assets are 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 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 2020

### 39. FINANCIAL RISK MANAGEMENT (continued)

#### 39.1 Financial risk factors (continued)

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

In calculating the ECL allowance, forward-looking macroeconomic information, such as unemployment rate or gross domestic products ("GDP"), is incorporated as part of risk parameters estimation. The Group has regularly reference to macro-forecast data from authoritative institutions (such as International Monetary Fund) and a range of macro-economic factors is maintained based on statistical data tests and expert judgement to ensure that relevant factors could be taken into consideration in the ECL models.

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

To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering both quantitative and qualitative information. Stages are determined by significant credit deterioration criteria, including (1) Principal or interest of the instrument is more than 30 days past due; (2) Credit rating of obligor changes significantly, credit rating is based on internal or external rating results, when the borrower's credit rating is downgraded to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varies based on the original credit rating upon initial recognition; (3) Loan classification grade has been downgraded to special mention; (4) Other circumstances of significant increase in credit risk according to qualitative reasoning and expert judgement. For example, significant adverse issues that have negative impacts on obligator's repayment ability.

The financial assets are movable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of "a significant increase in credit risk" are no longer met.

The Group considers a financial instrument to be credit-impaired when one or more of the following criteria have been met: (1) Principal or interest of the asset is more than 90 days past due; (2) Loan classification grade has been downgraded to substandard, doubtful or loss; (3) Other circumstances according to qualitative reasoning and expert judgement. For example, the issuer or obligor is in significant financial difficulty, or disappearance of an active market for that financial instrument because of financial difficulties.

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.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

The Group has applied a “three-stage” ECL 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, but it is not yet credit-impaired.
- 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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 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 HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL (credit- impaired) HK\$'000	
(a) Margin loans to customers				
Gross carrying amount as at 1 January 2020	2,179,041	305,401	290,482	2,774,924
Increases	1,217,350	1	1,737	1,219,088
Decreases	(993,776)	(18,972)	(51,524)	(1,064,272)
Write-off	-	-	(47,937)	(47,937)
Transfers between stages				
- Increase	177,838	32,404	214,410	424,652
- Decrease	(32,404)	(233,773)	(158,475)	(424,652)
As at 31 December 2020	<u>2,548,049</u>	<u>85,061</u>	<u>248,693</u>	<u>2,881,803</u>
Gross carrying amount as at 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>
(b) Other receivables, and amounts due from an associate, a fellow subsidiary and related parties				
Gross carrying amount as at 1 January 2020	298,597	-	-	298,597
Increases	261,766	-	6,265	268,031
Decreases	(127,970)	(865)	-	(128,835)
Transfers between stages				
- Increase	-	4,997	5,238	10,235
- Decrease	(9,426)	(809)	-	(10,235)
As at 31 December 2020	<u>422,967</u>	<u>3,323</u>	<u>11,503</u>	<u>437,793</u>
Gross carrying amount as at 1 January 2019	238,480	-	-	238,480
Increases	60,872	-	-	60,872
Decreases	(755)	-	-	(755)
Transfers between stages				
- Increase	-	-	-	-
- Decrease	-	-	-	-
As at 31 December 2019	<u>298,597</u>	<u>-</u>	<u>-</u>	<u>298,597</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

	Stage of assets			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL (credit- impaired) HK\$'000	
(c) Debt investments at FVOCI				
Gross carrying amount as at 1 January 2020	3,614,637	95,506	80,434	3,790,577
Increases	710,767	4,806	1,317	716,890
Decreases	(1,610,658)	(130,657)	(123,497)	(1,864,812)
Transfers between stages				
– Increase	–	458,050	100,312	558,362
– Decrease	(458,050)	(100,312)	–	(558,362)
As at 31 December 2020*	<u>2,256,696</u>	<u>327,393</u>	<u>58,566</u>	<u>2,642,655</u>
Gross carrying amount as at 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>
(d) Loans and advances				
Gross carrying amount as at 1 January 2020	2,334,252	–	–	2,334,252
Increases	974,896	–	–	974,896
Decreases	(504,203)	–	–	(504,203)
Transfers between stages				
– Increase	–	131,352	–	131,352
– Decrease	(131,352)	–	–	(131,352)
As at 31 December 2020	<u>2,673,593</u>	<u>131,352</u>	<u>–</u>	<u>2,804,945</u>
Gross carrying amount as at 1 January 2019	1,427,613	–	270,970	1,698,583
Increases	2,063,463	–	–	2,063,463
Decreases	(1,156,824)	–	–	(1,156,824)
Write-off	–	–	(270,970)	(270,970)
As at 31 December 2019	<u>2,334,252</u>	<u>–</u>	<u>–</u>	<u>2,334,252</u>

\* Debt investments measured at FVOCI are measured at fair value with the allowance for ECL (as disclosed on page 216) as a memorandum item. Change in ECL allowance is disclosed in Note 11.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

## (b) Credit risk (continued)

	Stage of assets			Total HK\$'000
	Stage 1	Stage 2	Stage 3	
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	
(e) Receivable from reverse repurchase agreements				
Gross carrying amount as at 1 January 2020	604,583	–	–	604,583
Increases	–	–	–	–
Decreases	(367,227)	–	–	(367,227)
As at 31 December 2020	<u>237,356</u>	<u>–</u>	<u>–</u>	<u>237,356</u>
Gross carrying amount as at 1 January 2019	625,214	–	–	625,214
Increases	–	–	–	–
Decreases	(20,631)	–	–	(20,631)
As at 31 December 2019	<u>604,583</u>	<u>–</u>	<u>–</u>	<u>604,583</u>

	Stage of assets				Total HK\$'000
	Stage 1	Stage 2	Stage 3	Lifetime ECL	
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	(simplified approach) HK\$'000	
(f) Accounts receivable					
Gross carrying amount as at 1 January 2020	499,434	–	53	14,498	513,985
Increases	583,352	–	–	16,517	599,869
Reverses	–	–	–	(389)	(389)
Write-off	–	–	–	(1,941)	(1,941)
As at 31 December 2020	<u>1,082,786</u>	<u>–</u>	<u>53</u>	<u>28,685</u>	<u>1,111,524</u>
Gross carrying amount as at 1 January 2019	626,076	–	–	16,818	642,894
Increases	1,796	–	53	11,020	12,869
Reverses	(128,438)	–	–	(13,340)	(141,778)
As at 31 December 2019	<u>499,434</u>	<u>–</u>	<u>53</u>	<u>14,498</u>	<u>513,985</u>

The Group has separately disclosed the movement of accounts receivable of corporate finance and underwriting business using simplified approach. The comparative figures have been re-presented accordingly.

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

As at 31 December 2020 and 31 December 2019, the Group's financial instruments for which an ECL allowance is recognised as follows according to the stage of ECL:

	Stage of assets			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL (credit- impaired) HK\$'000	
(a) Margin loans to customers				
As at 1 January 2020	2,183	4,761	88,740	95,684
Increases	2,030	483	59,473	61,986
Reverses	(3,007)	(4)	(24,044)	(27,055)
Write-off	–	–	(47,937)	(47,937)
Transfers between stages				
– Increase	2,756	13	4,127	6,896
– Decrease	(13)	(4,137)	(2,746)	(6,896)
As at 31 December 2020	<u>3,949</u>	<u>1,116</u>	<u>77,613</u>	<u>82,678</u>
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>
(b) Other receivables, and amounts due from an associate, a fellow subsidiary and related parties				
As at 1 January 2020	1,014	–	–	1,014
Increases	59	5	11,473	11,537
Reverses	(679)	(1)	–	(680)
Transfers between stages				
– Increase	–	35	38	73
– Decrease	(70)	(3)	–	(73)
As at 31 December 2020	<u>324</u>	<u>36</u>	<u>11,511</u>	<u>11,871</u>
As at 1 January 2019	259	–	–	259
Increases	813	–	–	813
Reverses	(58)	–	–	(58)
As at 31 December 2019	<u>1,014</u>	<u>–</u>	<u>–</u>	<u>1,014</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

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

	Stage of assets			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL (credit- impaired) HK\$'000	
(c) Debt investments at FVOCI				
As at 1 January 2020	22,725	5,646	21,655	50,026
Increases	6,567	10,881	216,709	234,157
Reverses	(13,767)	(613)	-	(14,380)
Transfers between stages				
– Increase	-	3,191	5,742	8,933
– Decrease	(3,191)	(5,742)	-	(8,933)
As at 31 December 2020	<u>12,334</u>	<u>13,363</u>	<u>244,106</u>	<u>269,803</u>
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>
(d) Loans and advances				
As at 1 January 2020	7,757	-	-	7,757
Increases	127	38	-	165
Reverses	(6,740)	-	-	(6,740)
Transfers between stages				
– Increase	-	49	-	49
– Decrease	(49)	-	-	(49)
As at 31 December 2020	<u>1,095</u>	<u>87</u>	<u>-</u>	<u>1,182</u>
As at 1 January 2019	2,262	-	270,970	273,232
Increases	7,467	-	-	7,467
Reverses	(1,972)	-	-	(1,972)
Write-off	-	-	(270,970)	(270,970)
As at 31 December 2019	<u>7,757</u>	<u>-</u>	<u>-</u>	<u>7,757</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

	Stage of assets			Total HK\$'000
	Stage 1	Stage 2	Stage 3	
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	
(e) Receivable from reverse repurchase agreements				
As at 1 January 2020	–	–	–	–
Increases	6	–	–	6
Reverses	–	–	–	–
As at 31 December 2020	<u>6</u>	<u>–</u>	<u>–</u>	<u>6</u>
As at 1 January 2019	33	–	–	33
Increases	–	–	–	–
Reverses	(33)	–	–	(33)
As at 31 December 2019	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

	Stage of assets				Total HK\$'000
	Stage 1	Stage 2	Stage 3	Lifetime ECL	
	12-month ECL HK\$'000	Lifetime ECL HK\$'000	Lifetime ECL (credit- impaired) HK\$'000	(simplified approach) HK\$'000	
(f) Accounts receivable					
As at 1 January 2020	153	–	108	1,795	2,056
Increases	–	–	–	3,525	3,525
Reverses	(90)	–	(108)	(1)	(199)
Write-off	–	–	–	(1,941)	(1,941)
As at 31 December 2020	<u>63</u>	<u>–</u>	<u>–</u>	<u>3,378</u>	<u>3,441</u>
As at 1 January 2019	20	–	–	1,685	1,705
Increases	133	–	108	122	363
Reverses	–	–	–	(12)	(12)
As at 31 December 2019	<u>153</u>	<u>–</u>	<u>108</u>	<u>1,795</u>	<u>2,056</u>

The Group has separately disclosed the movement of accounts receivable of corporate finance and underwriting business using simplified approach. The comparative figures have been re-presented accordingly.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

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

The following tables show the credit exposure to financial instruments as at 31 December 2020 and 31 December 2019:

	Stage of assets			Lifetime ECL (Simplified approach)	Lifetime ECL (Impairment allowance)	Total
	Stage 1	Stage 2	Stage 3			
	12-month ECL	Lifetime ECL	Lifetime ECL (credit-impaired)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>As at 31 December 2020</b>						
Margin loans to customers	2,548,049	85,061	248,693	–	(82,678)	2,799,125
Other receivables, and amounts due from an associate, a fellow subsidiary and related parties	422,967	3,323	11,503	–	(11,871)	425,922
Debt investments at FVOCI	2,256,696	327,393	58,566	–	(269,803)	2,372,852
Loans and advances	2,673,593	131,352	–	–	(1,182)	2,803,763
Receivable from reverse repurchase agreements	237,356	–	–	–	(6)	237,350
Accounts receivable	1,082,786	–	53	28,685	(3,441)	1,108,083
Loan commitments	–	–	–	–	–	–
<b>As at 31 December 2019</b>						
Margin loans to customers	2,179,041	305,401	290,482	–	(95,684)	2,679,240
Other receivables, and amounts due from an associate, a fellow subsidiary and related parties	298,597	–	–	–	(1,014)	297,583
Debt investments at FVOCI	3,614,637	95,506	80,434	–	(50,026)	3,740,551
Loans and advances	2,334,252	–	–	–	(7,757)	2,326,495
Receivable from reverse repurchase agreements	604,583	–	–	–	–	604,583
Accounts receivable	499,434	–	53	14,498	(2,056)	511,929
Loan commitments	97,163	–	–	–	–	97,163

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

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

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

	2020 HK\$'000	2019 HK\$'000
Total market value of securities pledged as collateral in respect of margin loans to customers	<u>10,272,065</u>	<u>11,563,508</u>
Total market value of securities pledged as collateral in respect of overdue accounts receivable – clients	<u>679,514</u>	<u>268,878</u>

#### Ageing analysis of past due accounts receivable

##### Accounts receivable

	Less than 30 days HK'000	31 to 60 days HK'000	61 to 90 days HK'000	More than 90 days HK'000	Total HK'000
<b>At 31 December 2020</b>					
Clients	245	–	–	53	298
Corporate finance services	2,025	–	–	4,410	6,435
Underwriting business	–	–	–	7,077	7,077
	<u>2,270</u>	<u>–</u>	<u>–</u>	<u>11,540</u>	<u>13,810</u>
<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>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

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

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

*Gross loans and advances – grading*

	2020 HK\$'000	2019 HK\$'000
Pass	<b>2,673,593</b>	2,334,252
Special Mention	<b>131,352</b>	–
Substandard	–	–
Doubtful	–	–
Loss	–	–
	<b><u>2,804,945</u></b>	<u>2,334,252</u>

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

	2020 HK\$'000	2019 HK\$'000
Total market value of collateral in respect of loans and advances	<b><u>7,548,549</u></b>	<u>5,563,000</u>

*Management assessment on economic scenarios, weightings and sensitivity analysis of ECL model*

The impairment allowance calculation as at 31 December 2019, on a forward-looking basis, have not taken into account of the credit risk associated with the outbreak of COVID-19 in early 2020. To reflect the prevailing market condition, the forward-looking macroeconomic information including unemployment rate and gross domestic product ("GDP") has been updated with revision of weightings of its three economic scenarios, i.e. "Optimistic scenario", "Basic scenario" and "Pessimistic scenario". The weighting of "Basic scenario" adopted by the Group overweight the aggregated weighting of non "Basic scenario".

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

*Management assessment on economic scenarios, weightings and sensitivity analysis of ECL model (continued)*

##### *Sensitivity analysis*

As at 31 December 2020 and 2019, sensitivity analysis is conducted for the impact of impairment allowance results against the forward-looking macroeconomic variables on the basis that (i) Optimistic scenario weight increases by 10% and Basic scenario weight is lowered by 10%; (ii) Pessimistic scenario weight increases by 10% and Basic scenario weight is lowered by 10%, as follows:

	31 December			
	2020		2019	
	Optimistic +10% HK\$'000	Pessimistic +10% HK\$'000	Optimistic +10% HK\$'000	Pessimistic +10% HK\$'000
Loans and advances	18	(621)	415	(3,005)
Debt securities	1,560	(4,413)	1,144	(7,760)
Margin finance	142	(263)	285	(251)

#### (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 respective liquidity positions on a monthly basis. The Group is responsible for the management of liquidity risk with an aim to maintain sufficient cash and marketable securities, ensuring the availability of funding through an adequate amount of committed credit facilities and assessing the ability to close out market positions.

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 consider if any funding is required. Besides, some of the subsidiaries of the Group are regulated by the SFC, those subsidiaries' liquid capital are calculated and assessed daily to fulfill the Financial Resources Rules.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.1 Financial risk factors (continued)

(c) *Liquidity risk (continued)*

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

(i) *Non derivatives*

	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months- 1 year HK\$'000	1-5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 31 December 2020</b>						
Borrowings	3,695,701	11,905	4,957,107	-	-	8,664,713
Subordinated loans from the ultimate holding company	750	1,427	6,650	35,331	1,000,000	1,044,158
Obligation under repurchase agreements	3,755,772	-	-	313,835	-	4,069,607
Other payables	100,898	-	-	-	-	100,898
Accounts payable	612,645	-	-	-	-	612,645
Amount due to the ultimate holding company	33,759	-	-	-	-	33,759
Financial liabilities at fair value through profit or loss	663,255	-	-	-	-	663,255
Lease liabilities	6,121	12,921	37,127	56,438	-	112,607
	<u>8,868,901</u>	<u>26,253</u>	<u>5,000,884</u>	<u>405,604</u>	<u>1,000,000</u>	<u>15,301,642</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.1 Financial risk factors (continued)

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

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

	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months- 1 year HK\$'000	1-5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 31 December 2019</b>						
Borrowings	3,231,118	26,889	122,032	5,033,430	-	8,413,469
Subordinated loans from the ultimate holding company	2,894	5,508	25,673	136,300	1,000,000	1,170,375
Obligation under repurchase 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 company	5,459	-	-	-	-	5,459
Amount due to a fellow subsidiary	55	-	-	-	-	55
Financial liabilities at fair value through profit or loss	723,871	-	-	-	-	723,871
Lease liabilities	5,046	10,040	36,614	25,019	-	76,719
	<u>4,403,081</u>	<u>530,171</u>	<u>461,387</u>	<u>5,922,363</u>	<u>1,000,000</u>	<u>12,317,002</u>

##### (ii) Derivatives settled on a gross basis

The tables below present the undiscounted contractual cash flow positions of the Group's derivative financial instruments that will be settled on a gross basis:

	On demand or less than 1 month HK\$'000	1-3 months HK\$'000	3 months- 1 year HK\$'000	1-5 years HK\$'000	Undated HK\$'000	Total HK\$'000
<b>At 31 December 2020</b>						
Derivative financial instruments settled on a gross basis						
Outflow	(109,616)	-	(266,482)	-	-	(376,098)
Inflow	<u>109,796</u>	-	<u>266,633</u>	-	-	<u>376,429</u>
<b>At 31 December 2019</b>						
Derivative financial instruments settled on a gross basis						
Outflow	-	-	(63,982)	-	-	(63,982)
Inflow	-	-	<u>63,994</u>	-	-	<u>63,994</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.2 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 2020 and 2019, the Company's licensed subsidiaries were regulated by the Hong Kong Securities and Futures Commission ("SFC") and 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 has remained 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.

	2020 HK\$'000	2019 HK\$'000
Total borrowings (Note 35)	<b>13,703,492</b>	10,652,326
Total equity	<b>7,783,938</b>	6,627,810
Gearing ratio	<b>176.0%</b>	160.7%

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.3 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.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2020.

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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.3 Fair value estimation (continued)

As at 31 December 2020	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	Recent transaction price	(i)	N/A	N/A
<b>Financial assets at fair value through profit or loss</b>				
Club debenture	Recent transaction price	Liquidity discount rate	25%	(ii)
Unlisted equities	Recent transaction price	(i)	N/A	N/A
	Allocated net asset value	Net asset value	N/A	(iv)
	Equity allocation method	Volatility	41.7%– 46.8%	(vii)
Unlisted funds	Market comparable approach	Sales multiples Discount rate for lack of marketability	0.5x–28.1x 14.7%– 24.5%	(iii)
	Allocated net asset value	Net asset value	N/A	(iv)
Preference shares	Recent transaction price	(i)	N/A	N/A
	Equity allocation method	Volatility	41.8%– 80.5%	(vii)
	Market comparable approach	Sales multiples Discount rate for lack of marketability	9.0x–28.1x 24.5%	(iii)
Structured financial products	Guaranteed principal plus expected return	Expected return rate	N/A	(v)
<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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.3 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 equities	Allocated net asset value Market comparable approach	Net asset value	N/A	(iv)
		EBITDA multiples	10.7x–27.2x	(iii)
		Discount rate for lack of marketability	35%	(ii)
Debt investment	Recent transaction price	(i)	N/A	N/A
	Recent transaction price	(i)	N/A	N/A
<b>Financial assets at fair value through profit or loss</b>				
Club debenture	Recent transaction price	Liquidity discount rate	25%	(ii)
Unlisted equities	Recent transaction price	(i)	N/A	N/A
	Allocated net asset value	Net asset value	N/A	(iv)
Unlisted funds	Market comparable approach	Sales multiples	0.3x–7.3x	(iii)
		Discount rate for lack of marketability	15.5%–24.5%	(ii)
		Allocated net asset value	Net asset value	N/A
Preference shares	Recent transaction price	(i)	N/A	N/A
	Recent transaction price	(i)	N/A	N/A
	Market comparable approach	Sales multiples	0.4x–15.2x	(iii)
Equity-linked loan	Discounted cash flow/Monte Carlo Simulation	Discount rate/(i)/	14.6%/N/A/	(ii)/N/A/(vi)
		Underlying fund terms	Within 1 year	
Structured financial products	Guaranteed principal plus expected return	Expected return rate	N/A	(v)
<b>Financial liabilities at fair value through profit or loss</b>				
Structured note payable	Recent transaction price	(i)	N/A	N/A

(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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.3 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 expected return rate, the higher the fair value.
- (vi) The longer the term of the underlying fund, the higher the fair value.
- (vii) The higher the volatility, the lower the fair value.

***Change in valuation technique***

During the year ended 31 December 2020, the Group changed the valuation technique used from recent transaction price to equity allocation method for the valuation of certain unlisted equities and preference shares. The Group believes the change in valuation technique and its applicable results in a measurement that is equally or more representative of the fair value in the circumstances because new information became available.

The following tables present the changes in Level 3 instruments for the year ended 31 December 2020 and 31 December 2019.

	2020 HK\$'000	2019 HK\$'000
<b>Financial assets at fair value through other comprehensive income</b>		
Beginning of the year	240,009	125,301
Addition during the year	–	178,658
Disposal during the year	(235,974)	(58,737)
Net gain/(loss) recognised in profit or loss	1,080	(1,080)
Net gain/(loss) recognised in other comprehensive income	1,992	(4,133)
End of the year (Note 22)	<u>7,107</u>	<u>240,009</u>

	2020 HK\$'000	2019 HK\$'000
<b>Financial assets at fair value through profit or loss</b>		
Beginning of the year	3,504,300	3,483,928
Addition during the year	982,621	892,743
Disposal during the year	(1,045,791)	(1,006,052)
Net gain recognised in profit or loss	298,743	133,681
End of the year (Note 22)	<u>3,739,873</u>	<u>3,504,300</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.3 Fair value estimation (continued)

	2020 HK\$'000	2019 HK\$'000
<b>Financial liabilities at fair value through profit or loss</b>		
Beginning of the year	19,432	19,550
Addition during the year	2,708	–
Net gain recognised in profit or loss	(93)	(118)
End of the year (Note 22)	<u>22,047</u>	<u>19,432</u>

	2020 HK\$'000	2019 HK\$'000
<b>Derivative financial liabilities</b>		
Beginning of the year	–	–
Addition during the year	7,790	–
End of the year (Note 22)	<u>7,790</u>	–

The Group has adopted consistent and transparent methodology based 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 provides a better approximation of the investment's current fair value. The management expects that there would not be frequent changes in valuation techniques.

#### ***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.

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

## 39.3 Fair value estimation (continued)

*Sensitivity analysis (continued)**Change in net asset value*

	2020		2019	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit after taxation/ total assets	<b>105,514</b>	<b>(105,514)</b>	73,823	(73,823)
Impact on other comprehensive income/equity	<u>-</u>	<u>-</u>	<u>5,336</u>	<u>(5,336)</u>

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

	2020		2019	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit after taxation/ total assets	<b>73,327</b>	<b>(73,327)</b>	133,878	(133,878)
Impact on other comprehensive income/equity	<u>593</u>	<u>(593)</u>	<u>14,833</u>	<u>14,833</u>

*Change in expected return rate*

	2020		2019	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit after taxation/ total assets	<b>1,741</b>	<b>(1,741)</b>	10,688	(10,688)

*Change in volatility*

	2020		2019	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit after taxation/ total assets	<b>(7,409)</b>	<b>7,123</b>	-	-

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

### 39.3 Fair value estimation (continued)

#### *Sensitivity analysis (continued)*

*Change in multiples*

	2020		2019	
	+10%	-10%	+10%	-10%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Impact on profit after taxation/ total assets	<b>48,748</b>	<b>(48,748)</b>	38,826	(38,826)
Impact on other comprehensive income/equity	-	-	900	(900)

### 39.4 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 2020	Gross amount of recognised financial assets HK\$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK\$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK\$'000
<b>Accounts receivable from</b>			
– Clients	1,188,629	(800,601)	388,028
– Brokers	601,680	(103,118)	498,562
– Clearing house	1,539,429	(1,343,243)	196,186
– Corporate finance services	5,648	-	5,648
– Underwriting business	19,659	-	19,659
<b>Margin loans to customers</b>	<b>3,388,413</b>	<b>(589,288)</b>	<b>2,799,125</b>
<b>Total</b>	<b>6,743,458</b>	<b>(2,836,250)</b>	<b>3,907,208</b>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

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

(a) *Financial assets (continued)*

As at 31 December 2019	Gross amount of recognised financial assets HK\$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK\$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK\$'000
<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 2020

## 39. FINANCIAL RISK MANAGEMENT (continued)

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

#### (b) Financial liabilities

As at 31 December 2020	Gross amount of recognised financial liabilities HK\$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK\$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$'000
<b>Accounts payable to</b>			
– Clients	1,902,376	(1,389,889)	512,487
– Clearing house	1,443,401	(1,343,243)	100,158
– Brokers	103,118	(103,118)	–
<b>Total</b>	<b>3,448,895</b>	<b>(2,836,250)</b>	<b>612,645</b>

As at 31 December 2019	Gross amount of recognised financial liabilities HK\$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK\$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK\$'000
<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>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31/12/2020 HK\$'000	31/12/2019 HK\$'000
<b>Non-current Assets</b>		
Property and equipment	32,484	32,083
Right-of-use assets	62,478	48,424
Interest in subsidiaries	2,796,207	1,569,936
Interest in associates	–	195,375
Interest in joint ventures	70,856	–
Subordinated loans to subsidiaries	1,496,240	1,000,000
Financial assets at fair value through other comprehensive income	1,930,298	2,173,874
Loans and advances	1,095,098	1,509,172
<b>Total non-current assets</b>	<b>7,483,661</b>	<b>6,528,864</b>
<b>Current Assets</b>		
Subordinated loans to subsidiaries	629,348	431,402
Loans and advances	1,708,665	817,323
Other receivables and prepayments	154,741	209,485
Receivable from reverse repurchase agreements	102,115	110,377
Amount due from the ultimate holding company	–	1,804
Amounts due from subsidiaries	1,714,689	2,198,875
Financial assets at fair value through other comprehensive income	338,004	942,618
Financial assets at fair value through profit or loss	3,829,255	3,680,754
Derivative financial assets	24,199	2,195
Cash and bank balances	26,326	116,306
<b>Total current assets</b>	<b>8,527,342</b>	<b>8,511,139</b>
<b>Total assets</b>	<b>16,011,003</b>	<b>15,040,003</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	1,188,069	627,443
Revaluation reserve	316	(91,365)
<b>Total equity</b>	<b>5,097,940</b>	<b>4,445,633</b>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

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

	31/12/2020 HK\$'000	31/12/2019 HK\$'000
<b>Non-current Liabilities</b>		
Borrowings	–	4,964,230
Lease liabilities	<b>24,705</b>	17,265
Deferred tax liabilities	<b>44,790</b>	–
<b>Total non-current liabilities</b>	<b>69,495</b>	4,981,495
<b>Current Liabilities</b>		
Borrowings	<b>8,633,885</b>	3,216,467
Provision for staff costs	<b>171,284</b>	100,795
Other payables and accrued expenses	<b>22,376</b>	20,129
Contract liabilities	<b>33,179</b>	37,567
Lease liabilities	<b>38,303</b>	32,377
Amount due to the ultimate holding company	<b>26,768</b>	–
Amounts due to subsidiaries	<b>1,893,906</b>	2,204,850
Derivative financial liabilities	<b>23,867</b>	690
<b>Total current liabilities</b>	<b>10,843,568</b>	5,612,875
<b>Total liabilities</b>	<b>10,913,063</b>	10,594,370
<b>Total equity and liabilities</b>	<b>16,011,003</b>	15,040,003
<b>Net current (liabilities)/assets</b>	<b>(2,316,226)</b>	2,898,264
<b>Total assets less current liabilities</b>	<b>5,167,435</b>	9,427,128

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 24 March 2021 and signed on its behalf by:

Meng Yu,  
Chief Executive Officer &  
Executive Director

Cheng Chuange,  
Deputy Chief Executive Officer &  
Executive Director

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 41. RESERVES OF THE COMPANY

	Retained earnings HK\$'000	Revaluation reserve HK\$'000
<b>At 1 January 2019</b>	588,901	(165,720)
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	278,443	–
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>
<b>At 1 January 2020</b>	<u>627,443</u>	<u>(91,365)</u>
Profit for the year	<b>806,721</b>	–
Other comprehensive income for the year	<u>–</u>	<u>91,681</u>
<b>Total comprehensive income for the year</b>	<u>806,721</u>	<u>91,681</u>
Final dividend for 2019	<u>(246,095)</u>	<u>–</u>
<b>At 31 December 2020</b>	<u>1,188,069</u>	<u>316</u>

# Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 42. 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")

	2020 HK\$'000	2019 HK\$'000
Segregated client accounts with HKCC	<u>27,851</u>	<u>57,471</u>

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

	2020 HK\$'000	2019 HK\$'000
Segregated client accounts with SEOCH	<u>82,638</u>	<u>63,886</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

	2020 HK\$'000	2019 HK\$'000
Segregated client accounts with AIs	<u>4,609,728</u>	<u>3,862,662</u>

## Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

## 43. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities

	Borrowings HK\$'000	Obligation under repurchase agreements HK\$'000	Lease liabilities HK\$'000	Total HK\$'000
As at 31 December 2018	6,751,830	672,082	–	7,423,912
Impact on initial application of HKFRS 16	–	–	143,190	143,190
Adjusted balance at 1 January 2019	6,751,830	672,082	143,190	7,567,102
Net drawdown	2,428,867	–	–	2,428,867
Increase in obligation under repurchase agreements	–	799,547	–	799,547
New lease	–	–	208	208
Principal elements of lease payments	–	–	(69,671)	(69,671)
Interest expenses on lease liabilities	–	–	3,213	3,213
Foreign exchange adjustments	–	–	(221)	(221)
At 31 December 2019	9,180,697	1,471,629	76,719	10,729,045
Net drawdown	488,991	–	–	488,991
Increase in obligation under repurchase agreements	–	2,602,325	–	2,602,325
New lease	–	–	103,726	103,726
Principal elements of lease payments	–	–	(73,926)	(73,926)
Interest expenses on lease liabilities	–	–	2,825	2,825
Foreign exchange adjustments	(35,803)	(4,347)	3,263	(36,887)
At 31 December 2020	<u>9,633,885</u>	<u>4,069,607</u>	<u>112,607</u>	<u>13,816,099</u>

## 44. SUBSEQUENT EVENT

Profit distribution for 2020

On 24 March 2021, the Board of Directors proposed the 2020 final dividends of HK\$0.16 per share, amounting to HK\$437,503 thousand. The proposed profit distribution plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

“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

## Glossary

“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
“BOCOM Dingji Science and Technology Innovation Equity Investment Fund”	BOCOM Dingji Science and Technology Innovation Equity Investment Fund (Shenzhen) Partnership Enterprise (Limited Partnership)* 交銀鼎吉科創股權投資基金（深圳）合夥企業（有限合夥），a limited partnership established under the laws of the PRC
“Changxing Financial”	Changxing Financial Equity Investment Co., Ltd*長興金控股權投資有限公司, a company established under the laws of the PRC with limited liability
“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 Financial Technology Services Framework Agreement, 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
“Jiaxing Hengsheng Equity Investment Fund”	Jiaxing Hengsheng Equity Investment Fund Partnership Enterprise (Limited Partnership)* 嘉興恒昇股權投資基金合夥企業（有限合夥），a limited partnership established under the laws of the PRC
“IPO”	initial public offering

“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	19 May 2017, the date on which the Shares were first listed on the Stock Exchange and from which dealings in the Shares on the Stock Exchange commenced
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Model Code”	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
“Ocean Holding”	Qingdao West Coast New Area Ocean Holding Group Company Limited* 青島西海岸新區海洋控股集團有限公司, a company established under the laws of the PRC with limited liability
“QDIE”	Qualified Domestic Investment Entity
“QFII”	Qualified Foreign Institutional Investor
“QFLP”	Qualified Foreign Limited Partnership
“Oriental Investment”	Yancheng Oriental Investment Development Group Company Limited* 鹽城東方投資開發集團有限公司, a company established under the laws of the PRC with limited liability
“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

## Glossary

“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 2020
“Yin Dao Fund”	Liuzhou Liu Dong Yin Dao Fund Company Limited* 柳州柳東引導基金有限公司, a company established under the laws of the PRC with limited liability
“YoY”	year-on-year
“Zhongshui Huijin”	Dongtai Zhongshui Huijin Asset Management Company Limited* 東台市中水匯金資產管理有限公司, a company established under the laws of the PRC with limited liability
“Zhong Ting Investment”	Zhong Ting Investment Holding Company Limited* 中廷投資控股有限公司, a company established under the laws of the PRC with limited liability



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