



交銀國際
BOCOM International

交銀國際控股有限公司

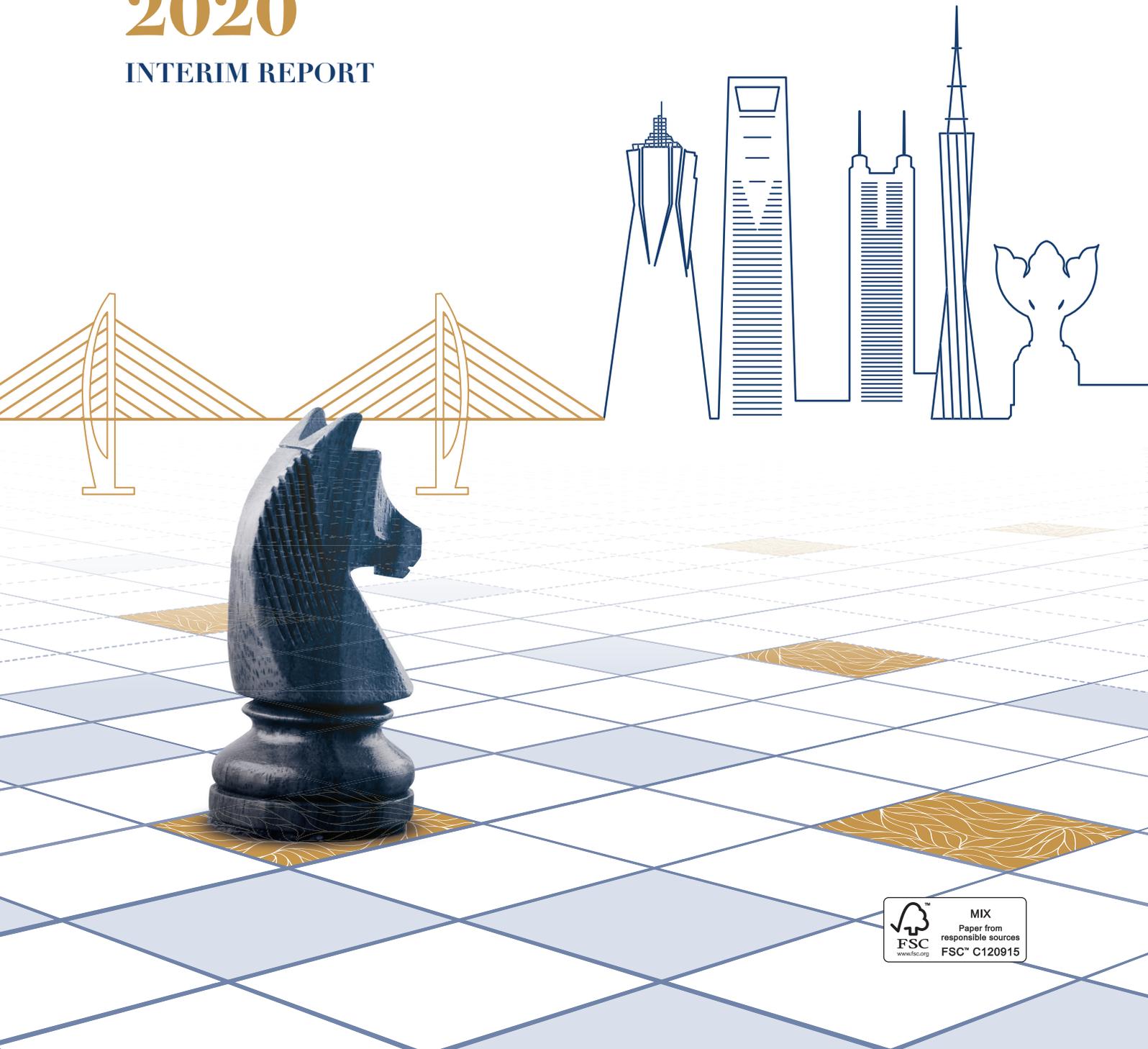
BOCOM International Holdings Company Limited

(Incorporated in Hong Kong with limited liability)

Stock code: 3329

2020

INTERIM REPORT





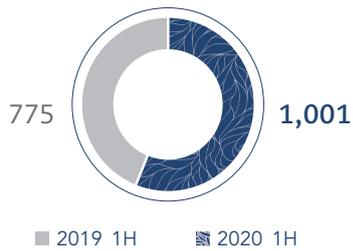
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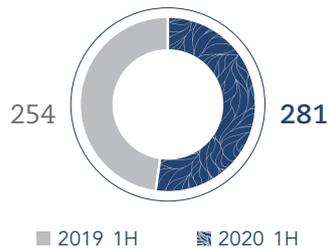
Financial Highlights

Results

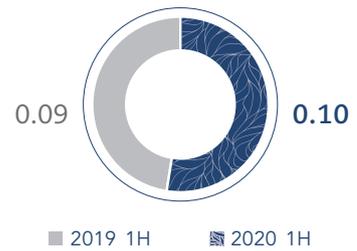
Revenue and other income
(in million HK\$)



Profit attributable to Shareholders of the Company
(in million HK\$)

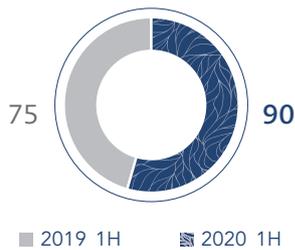


Basic/Diluted earnings per share
(in HK\$)

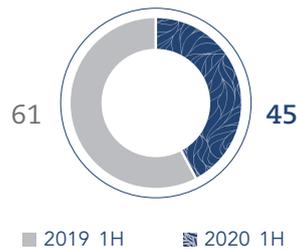


Revenue and other income by segment

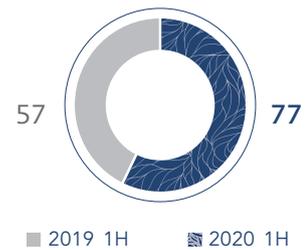
Brokerage
(in million HK\$)



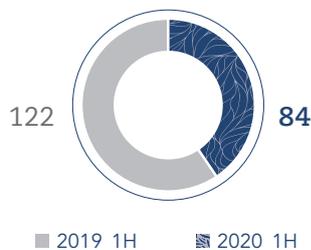
Corporate finance and underwriting
(in million HK\$)



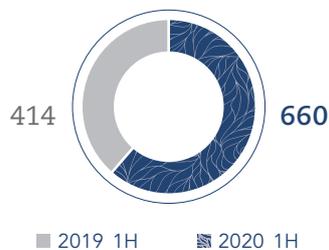
Asset management and advisory
(in million HK\$)



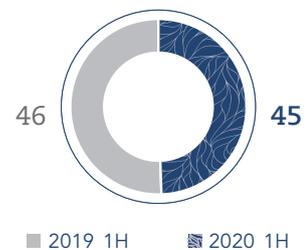
Margin financing
(in million HK\$)



Investment and loans
(in million HK\$)



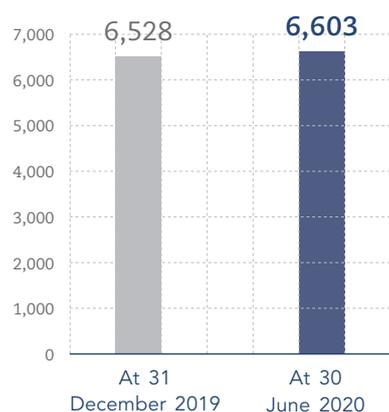
Others
(in million HK\$)



Financial Position

Shareholders' equity — attributable to shareholders of the Company

(in million HK\$)



Total assets

(in million HK\$)



Number of shares in issue

(in million shares)



NAV per share — attributable to shareholders of the Company

(in HK\$)



Corporate Information

BOARD OF DIRECTORS

Executive Directors

TAN Yueheng (*Chairman*)
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*)
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
KWONG Yin Ping, Yvonne
(*resignation effective from 19 May 2020*)

AUTHORISED REPRESENTATIVES

CHENG Chuange
YI Li (*appointment effective from 19 May 2020*)
KWONG Yin Ping, Yvonne
(*resignation effective from 19 May 2020*)

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
China CITIC Bank International Limited
OCBC Wing Hang Bank Limited
Dah Sing Bank
Agricultural Bank of China Hong Kong Branch
China Construction Bank (Asia) Corporation Limited

STOCK CODE

HKEX	3329
Reuters	3329.HK
Bloomberg	3329 HK

COMPANY WEBSITE

www.bocomgroup.com

* Ms. XI Xuanhua and Mr. SU Fen are Deputy Chief Executive Officers of the Company.

Management Discussion and Analysis

MARKET REVIEW

In the first half of 2020, the shock of the pandemic spread globally, plunging the global economy into an unprecedented crisis. Central banks took coordinated actions for easing, the Federal Reserve slashed the interest rate to zero and developed countries turned to more unconventional strategies to shore up their reeling economies. The global fiscal stimulus has exceeded the intensity during the 2008 Global Financial Crisis.

However, the current pandemic is a factor that is largely out of the realm of monetary and fiscal policy. Faced with abrupt suspension of economic activities, such unprecedented counter-cyclical control measures have done little to boost growth. International trade plummeted, unemployment soared, consumer activity remained sluggish, and supply chain disruption has exposed many industries to the risk of disrupting manufacturing operations. Financial markets have seen extreme volatility under wild mood swings and unprecedented easing. After several rounds of meltdowns, global stock markets staged a “boom” deviating substantially from real economy.

In the first half of 2020, China’s economic growth experienced a decline before bouncing back, leading a global recovery. Due to the outbreak of the pandemic at the beginning of the year and the complicated external environment, China’s economic growth suffered the most serious blow since the reform and opening up, with the first GDP contraction on record in the first quarter. However, China’s strict containment measures bore fruit. With a variety of policy stimulus providing targeted support, China’s economic activity recovered and overall growth showed a V-shaped recovery as productivity gradually recovered in the second quarter.

China’s monetary policy has been proactive, with the scale of new RMB loans and total social financing both reaching historic highs and M2 increasing by double digits again. Fiscal policy has been implemented in a forceful and timely manner, with increasing fiscal deficit and accelerating expansion of government special-purpose bonds issuance. Capital market reform has been steadily advancing, with the successful implementation of the new securities law and the GEM registration system making financing more accessible to the real economy.

US-China tensions and the COVID-19 pandemic have added to the woes of Hong Kong’s economy, which has yet to recover from the social unrest. Exports, consumption, and investment have stalled, unemployment has increased, and Hong Kong has fallen into a deeper economic recession. Geopolitical tension and sanctions threats posed by the US put Hong Kong in a difficult and uncertain situation. However, the successful passing of the new National Security Law has laid a solid foundation essential for the long-term stable development of Hong Kong, strengthening investor confidence and helping the economy get back on track.

In the first half of 2020, the Hong Kong market saw considerable volatility due to the impact of the pandemic. During the epic plunge in March 2020, the Hang Seng index had also reached its lows in the current cycle, and these are unlikely to be turned around. Thanks to the secondary listing of China concept stocks, the Hong Kong IPO market has remained vibrant in such a turbulent environment, with total financing ranking third in the world. HKD continued to strengthen and triggered the strong-side convertibility undertaking after four years, due to interest rate spreads between Hong Kong and the US and IPO activities from the flocking back of US-listed Chinese companies.

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 Reporting Period, the Group's revenue and other income was HK\$1,000.6 million, representing an increase of 29.1% when compared with HK\$775.2 million for the same period last year. The Group's profit was HK\$278.8 million, representing an increase of 9.7% when compared with HK\$254.3 million for the same period last year.

Securities Brokerage and Margin Financing

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

To cope with the challenges from technology-led new market entrants, we have redefined our business model by implementing digital transformation, so as to give full play to our differentiators and core capabilities. We believe that the power of technology and innovative thinking are crucial components of success, and have devoted considerable resources to enhance our online trading platform, data management, cyber security and market surveillance to satisfy various needs. Positioning ourselves as a "bespoke" player in the market, our high-quality wealth management team is dedicated to providing a full spectrum of products and financing options and offering creative-client-based solutions to our target client segments. In addition, with the power of technology, we guaranteed efficient and high-quality services for clients during the period affected by the pandemic by providing remote services and arranging virtual meetings and other means.

During the Reporting Period, our trading turnover of Hong Kong stocks increased by 32% as compared to the corresponding period last year, outperforming the market.

Management Discussion and Analysis

For the six months ended 30 June 2020, our commission and fee income from the securities brokerage business was HK\$82.0 million, an increase of HK\$17.7 million or 27.5% as compared with the corresponding period of 2019.

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

	For the six months ended 30 June			
	2020		2019	
	HK\$'million	%	HK\$'million	%
Hong Kong stocks	62.1	75.7	48.7	75.7
Non-Hong Kong stocks	10.3	12.6	4.2	6.5
Bonds	2.7	3.3	4.1	6.4
Others	6.9	8.4	7.3	11.4
	82.0	100.0	64.3	100.0

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 the first half of 2020, the number of margin client accounts continued to grow. The monthly average loan balance decreased and interest income from margin loans for the six months ended 30 June 2020 was HK\$83.6 million, a decrease of HK\$38.2 million or 31.4% as compared with the corresponding period in 2019.

Management Discussion and Analysis

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

	30/6/2020	31/12/2019
Number of margin accounts	8,509	8,254
Balance of gross margin loans (HK\$'million)	2,434.4	2,774.9
Monthly average balance (HK\$'million)	2,563.2	3,421.9
Highest month end balance (HK\$'million)	2,732.6	3,814.3
Lowest month end balance (HK\$'million)	2,434.4	2,658.2
Margin value (HK\$'million) (Note 1)	1,896.9	2,789.8
Market value (HK\$'million) (Note 2)	6,533.3	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 the first half of 2020, there were a total of 64 new listings in Hong Kong, including transfers of listing from GEM to Main Board. The number of new listings has decreased by 23.8% as compared with the corresponding period in 2019. The aggregate amount of funds raised through IPOs was HK\$87.5 billion, an increase of 21.8% as compared with the corresponding period in 2019.

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 TMT, healthcare and biotechnology industries in order to capture the business opportunities of a new era. During the Reporting Period, we acted as a joint sponsor for 1 IPO project. Furthermore, we acted as a global coordinator and/or book-runner for 11 IPO projects. In respect of debt capital markets, we completed 22 debt issuance projects, and successfully assisted corporations in raising US\$9.84 billion in aggregate.

For the six months ended 30 June 2020, our commission and fee income from corporate finance and underwriting services was HK\$44.6 million, a decrease of HK\$16.1 million or 26.5% as compared to HK\$60.7 million in the corresponding period of 2019.

Asset Management and Advisory

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

Our core value is to provide comprehensive investment solutions and 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 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 Fund, which we established under our Shanghai asset management platform, is China's first bank-affiliated science and technology investment fund, with underlying investments aiming to be listed on the Science and Technology Innovation Board (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 30 June 2020, BOCOM Science and Technology Innovation Fund has completed 7 pre-IPO investments, of which 3 will be ready for listing in the near future on the STAR Market. BOCOM Science and Technology Innovation Fund has completed more than 70% of its investment target, mainly distributed in the Yangtze River Delta region, focusing on the fields of biomedicine and information technology. To improve business influence in the region, Nanjing Jiaoyin 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)) was set up in Jiangsu by BOCOM Science and Technology Innovation Fund in 2020. 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 business expansion and operational compliance in Mainland China.

Apart from the Yangtze River Delta region, we established our first QFLP fund, Minrui Fund under our Shenzhen asset management platform in the first half of 2020. Minrui Fund is a domestic enterprise with foreign investments, marking another successful milestone of BOCOM International's access to cross-border investment and financing channels and creation of new drivers for growth.

Diversified products are the building blocks of our asset management business. As at 30 June 2020, the total amount of AUM was approximately HK\$27,613.8 million, representing an increase of approximately 0.6% from HK\$27,437.4 million as at 31 December 2019. For the six months ended 30 June 2020, asset management and advisory fee income increased by HK\$17.2 million or 30.0% to HK\$74.4 million, which comprised of management fee income of HK\$38.1 million and advisory fee income of HK\$36.3 million.

Investment and Loans

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

Management Discussion and Analysis

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

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

The fixed income market was volatile in the first half of 2020 and is expected to stabilise in the second half of 2020. Our portfolio remained comparatively resilient during the market turmoil and we actively seized new opportunities. For the six months ended 30 June 2020, interest income from loans and advances and receivables from structured financing was HK\$105.1 million, representing an increase of approximately 55.7% as compared to HK\$67.5 million for the corresponding period in 2019. Proprietary trading income was HK\$541.6 million, an increase of HK\$202.5 million or 59.7% as compared to HK\$339.1 million for the corresponding period in 2019.

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

	30/6/2020		31/12/2019	
	HK\$'million	%	HK\$'million	%
Fixed income securities	10,965.9	81.8	8,591.1	75.9
Bonds	8,657.6	64.5	6,545.2	57.8
Preference shares	2,275.0	17.0	1,992.5	17.6
REIT(s)	33.3	0.3	53.4	0.5
Equity investments	314.1	2.3	179.6	1.6
Equity-linked loan	—	—	443.1	3.9
Funds	2,138.3	15.9	2,106.0	18.6

Research

Our research team has a strong and solid understanding of and insight into the global economic environment, financial markets and major industries, as well as a track record in comprehensive analyses of sector- and company-specific fundamentals. The team is well-recognised among institutional investors in Hong Kong, Mainland China and the overseas markets. As at 30 June 2020, our research team comprised of 35 strategy, industry analysts and professional staff in Hong Kong, Beijing and Shanghai, covering about 148 companies listed in Hong Kong, Mainland China and New York across various sectors. In the first half of 2020, the research team published 615 reports, and launched the "frontier research center", strengthening cross-sector and forward-looking analysis.

In addition to solid capabilities in investment research, our research team also sought to provide better services to our clients, which mainly included: tracking the quantity of readership of our reports, the enhancement of market influence, the foundation of our official research WeChat, and the enhancement of connections with the media and communication with investors, thereby promoting the overall image of the Group.

FINANCIAL REVIEW

Financial performance

For the six months ended 30 June 2020, the Group's total revenue and other income was approximately HK\$1,000.6 million, representing an increase of approximately 29.1% over HK\$775.2 million for the corresponding period in 2019.

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

	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	HK\$'million	%	HK\$'million	%
Brokerage	90.1	9.0	74.8	9.7
Corporate finance and underwriting	44.6	4.5	60.7	7.8
Asset management and advisory	76.9	7.7	57.4	7.4
Margin financing	83.6	8.3	121.8	15.7
Investment and loans	660.2	66.0	414.0	53.4
Others	45.2	4.5	46.5	6.0
Total	1,000.6	100.0	775.2	100.0

The Group's profit for the six months ended 30 June 2020 was approximately HK\$278.8 million, representing an increase of approximately 9.7% over HK\$254.3 million for the corresponding period in 2019.

Operating expenses

Operating expenses and finance costs for the six months ended 30 June 2020 amounted to HK\$651.9 million (2019 1H: HK\$508.7 million), an analysis of which is listed below:

	For the six months ended 30 June 2020		For the six months ended 30 June 2019	
	HK\$'million	%	HK\$'million	%
Commission and brokerage expenses	25.8	4.0	20.1	3.9
Finance costs	161.4	24.8	165.0	32.4
Staff costs	156.5	24.0	185.6	36.5
Depreciation	39.9	6.1	38.9	7.7
Other operating expenses	95.4	14.6	91.1	17.9
Change in impairment allowance	172.9	26.5	8.0	1.6
Total	651.9	100.0	508.7	100.0

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

Management Discussion and Analysis

Depreciation increased slightly by 2.4%.

Other operating expenses increased by 4.8% mainly due to the settlement of regulatory fines.

Change in impairment allowance increased to HK\$172.9 million, representing the increase in provision for the Group's exposures as result of the current environment under the requirements of HKFRS 9 Financial Instruments.

Liquidity, Financial Resources and Gearing Ratio

The Group's cash and bank balances as at 30 June 2020 increased by HK\$373.4 million to HK\$918.5 million (31 December 2019: HK\$545.1 million).

The Group's net current assets decreased by HK\$4,707.0 million to approximately HK\$2,678.3 million as at 30 June 2020 from HK\$7,385.3 million as at 31 December 2019. The current ratio, being the ratio of current assets to current liabilities, was approximately 1.2 times as at 30 June 2020 (31 December 2019: 2.3 times).

As at 30 June 2020, the Group had borrowings of HK\$12,058.6 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 30 June 2020, the Group's gearing ratio was 189.4% (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 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 that 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 and mitigates the interest rate risk by diversification of assets and regular monitoring of risk exposure so as to quantify market exposure in duration terms.

Credit Risk

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

Liquidity Risk

Our businesses rely on 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 to 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 control and other measures and plans to mitigate such risk.

Market Risk

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

Management Discussion and Analysis

Material Acquisitions and Disposals

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

Significant Investments Held

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

Charges on Group Assets

As at 30 June 2020, there was no charge on Group assets (31 December 2019: Nil).

Capital Commitments

As at 30 June 2020, the Group had no significant capital commitment.

Employees and Remuneration Policies

As at 30 June 2020, the Group had a total of 319 employees. Total staff costs amounted to approximately HK\$156.5 million for the six months ended 30 June 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 are determined with reference to their duties, responsibilities, experience and to the prevailing market conditions. Mandatory provident fund scheme and insurance packages have been provided to employees in accordance with local laws and regulations. We conduct performance evaluations of our employees annually to provide feedback on their performance.

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

Contingent liabilities

As at 30 June 2020, the Group had certain contingent liabilities arising in the ordinary course of business. Please refer to Note 26 to the Condensed Consolidated Financial Statements of this interim report for details.

Use of Proceeds

The net proceeds from the Listing in 2017 after deducting underwriting fees and commissions and expenses in connection with the Listing, were approximately HK\$1,879.2 million. As at 30 June 2020, the Group utilised approximately 98.0% of the net proceeds for the purposes as set out in the section headed "Future Plans and Use of Proceeds – Use of proceeds" in the Prospectus. The unutilised amount is expected to be utilised within 3 years.

Management Discussion and Analysis

An analysis of the application/intended application and utilisation of the net proceeds from the Listing as at 30 June 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 Reporting Period (HK\$'million)	Utilised amount as at 30/6/2020 (HK\$'million)	Unutilised amount (HK\$'million)
1. Expand margin financing business	845.7	845.7	-	845.7	-
2. Expand asset management and advisory business	281.9	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	27.7	150.1	37.8
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	1,879.2	1,813.7	27.7	1,841.4	37.8

Outlook

The continued spread of COVID-19 has brought about huge and unprecedented challenges to global economic recovery. Even if countries contain the virus' contagious spread at the high cost of suspending economic activity, the pandemic is yet to be fully controlled, and the global economy has plunged into a deep recession. Industrial production, consumption, and employment dropped beyond expectations and fell to record lows. Almost all regions of the world suffered contraction, ending a decade of global expansion.

Currently, the epicenter of the pandemic has been gradually shifting to emerging countries, and the expected resumption of economic activities is likely to be encumbered in Europe and the United States due to a second wave of the pandemic. The global economy remains far from a full recovery. The stance of monetary policy will remain accommodative, enabling unprecedented levels of fiscal expansion under the normal state of low interest rates. But central banks across the world are not omnipotent, and reckless money printing is likely to be self-defeating. Developed economies' measures have been blurring the line between monetary and fiscal policy, and the current liquidity deluge is increasing the risk of hyperinflation in the coming years.

China is leading the global recovery, which will continue in the second half of this year. The impact of the pandemic on China's economy has been significant but temporary. Thanks to effective control measures and orderly resumption of work and production, China's economy managed to grow more strongly than expected with a V-shape recovery. However, the global economy faces a difficult return to recovery from the pandemic. Against the backdrop of weakening overseas conditions, domestic demand has been a major driving force for growth.

Management Discussion and Analysis

Infrastructure will remain the key theme of stable investment. Consumption is expected to rebound with a package of economic assistance policies such as “six guarantees” and “six stability” coordinated with investment to boost growth. As the economy gets back on track, China’s monetary policy will pay more attention to structural control, and maintain reasonable and abundant liquidity. While the US turns to emphasise “the art of deal” with unilateralism, China has been enhancing its global influence via the Belt and Road Initiative and becoming a force to be reckoned with on the global stage. Markets have reached a historical pivot. China is set to outperform the US in the long run, and both A-shares and Hong Kong stocks offer long-term investment value.

In the face of the complex external environment, we have also seen the resilience of China’s economy in response to various risks and challenges. The pandemic has had a huge impact on the economy in the short term, but it has also spawned a number of new emerging industries and intensified industrial transformation. In the post-pandemic era of “creating opportunities amid crisis”, we have to rethink corporate strategies and business models, turning challenges into opportunities through further innovation and speculation.

In order to cope with the complex internal and external environment, leverage on FinTech for high-quality development, and enhance technological empowerment and market competitiveness, the Group intends to further expand its FinTech business beyond its existing main activities after considering its actual operation and management. In August 2020, the Company established and completed the registration for BOCOM Financial Technology through its wholly-owned subsidiary, BOCOM International (Shanghai). BOCOM Financial Technology, as a subsidiary of the Company, is purported to provide financial technology services for the Group, BOCOM Group and the public. The services provided to the Group and BOCOM Group mainly include assisting the Group and BOCOM Group to realise digital and intelligent transformation, while the services provided to the public include the construction of open and ecological platforms. The Group will strive to open up new business fields by building its own FinTech development team to gradually realise digital and intelligent transformation, as well as integrate with its other existing businesses, so as to better meet customers’ needs for diversified and personalised financial services.

The Group will focus on value creation and promote high-quality and large-scale development by facilitating synergetic development of the licensed business and asset business. In such uncertain times, the Group will adhere to the risk appetite of “prudence, stability, and compliance” and accelerate high-quality development with respect to scale relying on a mature and complete investment and research system, so as to build a wealth management investment bank with global influence and regional market competitiveness, and create greater value for clients and shareholders.

Corporate Governance and Other Information

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

As at 30 June 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	100,000	0.00	0.00
		A shares	140,000	0.00	0.00
CHENG Chuange	Beneficial owner	A shares	40,000	0.00	0.00
SHOU Fugang	Beneficial owner	H shares	20,000	0.00	0.00
		A shares	80,000	0.00	0.00
PO Ying	Beneficial owner	A shares	35,000	0.00	0.00

Corporate Governance and Other Information

Save as disclosed above, as at 30 June 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For the six months ended 30 June 2020, none of the Company or any of its subsidiaries had signed any agreements to enable the Directors to acquire benefits by means of acquisition of shares or debt securities (including debentures) of the Company or any other body corporate and none of the Directors, his/her spouses or children under the age of 18 had any rights to subscribe for securities of the Company, or had exercised any such rights.

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

As at 30 June 2020, the interests and short positions of those persons (other than the Directors or Chief Executives of the Company) in the Shares and underlying Shares of the Company as required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or to the best of Directors' knowledge, were as follows:

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

Notes:

- (1) Expectation Investment is an indirect subsidiary of BOCOM and is the beneficial owner of 500,000 Shares. BOCOM is deemed to be interested in an aggregate of 2,000,000,000 Shares which BOCOM Nominee is interested in as trustee (other than a bare trustee) and which Expectation Investment is interested in as beneficial owner.
- (2) BOCOM Nominee is a subsidiary of BOCOM and (a) holds 1,999,500,000 Shares on trust for BOCOM and (b) controls 50% of voting rights of Expectation Investment which is the beneficial owner of 500,000 Shares.

Save as disclosed above, as at 30 June 2020, the Company is not aware of any other persons, other than the Directors and Chief Executives of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had interests or short positions in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code of the Listing Rules as its own code of corporate governance. For further details, please refer to the "Corporate Governance Report" section contained in the Company's 2019 annual report. During the six months ended 30 June 2020, save as disclosed below, the Company has complied with all the code provisions set out in the Corporate Governance Code.

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

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors confirmed that they complied with the Model Code throughout the six months ended 30 June 2020 in response to specific enquiries made by the Company.

Corporate Governance and Other Information

CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

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

Ms. PO Ying, a Non-executive Director, ceased to be the deputy general manager of the financial budget department of BOCOM with effect from 23 June 2020.

Mr. TSE Yung Hoi, an Independent Non-executive Director, has resigned as an independent non-executive director of Guoan International Limited (stock code: 0143) with effect from 1 June 2020 and has ceased to be an independent non-executive director of HJ Capital (International) Holdings Company Limited (formerly known as “iOne Holdings Limited”) (stock code: 00982) with effect from 20 July 2020 and was appointed as an independent non-executive director of Jinmao Hotel and Jinmao (China) Hotel Investments and Management Limited (stock code: 06139) with effect from 9 June 2020.

Mr. LIN Zhijun, an Independent Non-executive Director, has ceased to be an independent non-executive director of Springland International Holdings Limited (withdrawal of listing on the Stock Exchange) with effect from 2 March 2020.

Mr. SU Fen, a Deputy Chief Executive Officer, was appointed as a director of BOCOM International Product and Solution Limited, an indirect wholly-owned subsidiary of the Company, with effect from 9 July 2020.

REVIEW OF INTERIM RESULTS

The Audit and Risk Management Committee has reviewed with management and the Company’s auditor, PricewaterhouseCoopers, the accounting principles and practices adopted by the Group and discussed the financial reporting matters including the review of the Company’s interim report for the six months ended 30 June 2020.

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

INTERIM DIVIDEND

No dividend was paid or declared by the Company for the six months ended 30 June 2020 (2019 1H: Nil).

Report on Review of Interim Financial Information

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 22 to 63, which comprises the condensed consolidated statement of financial position of BOCOM International Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2020 and the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 August 2020

Condensed Consolidated Income Statement

	Notes	Six months ended	
		30/6/2020 (Unaudited) HK\$'000	30/6/2019 (Unaudited) HK\$'000
Revenue	6	931,401	710,630
Other income	6	69,159	64,593
Revenue and other income		1,000,560	775,223
Commission and brokerage expenses		(25,787)	(20,074)
Finance costs	8	(161,414)	(164,997)
Staff costs	8	(156,513)	(185,581)
Depreciation	8	(39,846)	(38,928)
Other operating expenses		(95,446)	(91,087)
Change in impairment allowance	7	(172,858)	(7,993)
Total expenses		(651,864)	(508,660)
Operating profit		348,696	266,563
Share of results of associates	13	(26,007)	17,682
Share of results of joint ventures		(368)	23
Profit before taxation	8	322,321	284,268
Income tax expense	9	(43,508)	(30,011)
Profit for the period		278,813	254,257
Attributable to:			
Shareholders of the Company		280,721	253,891
Non-controlling interests		(1,908)	366
		278,813	254,257
Earnings per share attributable to shareholders of the Company for the period			
— Basic/Diluted (in HKD per share)	11	0.10	0.09

Condensed Consolidated Statement of Comprehensive Income

	Six months ended	
	30/6/2020 (Unaudited) HK\$'000	30/6/2019 (Unaudited) HK\$'000
Profit for the period	278,813	254,257
Other comprehensive income/(loss)		
<i>Items that will be reclassified subsequently to profit or loss</i>		
Changes in fair value of debt investments at fair value through other comprehensive income	17,654	72,523
Amounts reclassified to profit or loss upon disposal of debt investments at fair value through other comprehensive income	(815)	–
	16,839	72,523
Exchange differences on translation of foreign operations	(7,785)	(6,056)
	9,054	66,467
<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	28,154	25,276
Other comprehensive income, net of tax	37,208	91,743
Total comprehensive income	316,021	346,000
Attributable to:		
Shareholders of the Company	320,629	345,918
Non-controlling interests	(4,608)	82
	316,021	346,000

Condensed Consolidated Statement of Financial Position

	<i>Notes</i>	30/6/2020 (Unaudited) HK\$'000	31/12/2019 (Audited) HK\$'000
Assets			
Non-current Assets			
Property and equipment		29,269	34,054
Right-of-use assets		102,228	73,623
Intangible assets		3,196	3,196
Interest in associates	13	364,955	393,964
Interest in joint ventures		47,074	33,274
Other assets		34,659	24,710
Financial assets at fair value through other comprehensive income	12	3,704,098	3,172,930
Loans and advances	14	1,675,933	1,509,172
Receivable from reverse repurchase agreements	15	146,363	224,987
Deferred tax assets		10,042	10,758
Total non-current assets		6,117,817	5,480,668
Current Assets			
Loans and advances	14	1,073,458	817,323
Tax recoverable		5,824	–
Accounts receivable	16	1,733,204	511,929
Other receivables and prepayments	17	472,298	346,462
Margin loans to customers	18	2,344,095	2,679,240
Receivable from reverse repurchase agreements	15	109,847	379,596
Amount due from an associate		248	547
Amounts due from related parties		1,418	1,937
Financial assets at fair value through other comprehensive income	12	1,252,851	1,457,609
Financial assets at fair value through profit or loss	12	8,329,726	6,507,553
Derivative financial assets	12	27,552	2,224
Cash and bank balances	19	918,542	545,141
Total current assets		16,269,063	13,249,561
Total assets		22,386,880	18,730,229
Equity and liabilities			
Equity attributable to shareholders of the Company			
Share capital	23	3,942,216	3,942,216
Retained earnings		2,810,319	2,778,837
Revaluation reserve		(119,021)	(167,158)
Foreign currency translation reserve		(30,998)	(25,913)
Total equity attributable to shareholders of the Company		6,602,516	6,527,982
Non-controlling interests		292,743	99,828
Total equity		6,895,259	6,627,810

Condensed Consolidated Statement of Financial Position (Continued)

	<i>Notes</i>	30/6/2020 (Unaudited) HK\$'000	31/12/2019 (Audited) HK\$'000
Liabilities			
Non-current Liabilities			
Borrowings	20	–	4,964,230
Subordinated loans from the ultimate holding company	20	1,000,000	1,000,000
Obligation under repurchase agreements	20	859,643	248,915
Lease liabilities		41,180	25,019
Total non-current liabilities		<u>1,900,823</u>	<u>6,238,164</u>
Current Liabilities			
Borrowings	20	8,358,117	3,216,467
Obligation under repurchase agreements	20	2,840,866	1,222,714
Tax payable		42,363	11,388
Provision for staff costs		70,545	101,524
Other payables and accrued expenses		129,904	67,213
Accounts payable	21	1,213,247	405,443
Dividend payable		246,095	–
Contract liabilities	22	47,882	55,479
Lease liabilities		66,246	51,700
Amount due to the ultimate holding company		36,813	5,459
Amount due to a fellow subsidiary		486	55
Financial liabilities at fair value through profit or loss	12	506,747	723,871
Derivative financial liabilities	12	31,487	2,942
Total current liabilities		<u>13,590,798</u>	<u>5,864,255</u>
Total liabilities		<u>15,491,621</u>	<u>12,102,419</u>
Total equity and liabilities		<u>22,386,880</u>	<u>18,730,229</u>
Net current assets		<u>2,678,265</u>	<u>7,385,306</u>
Total assets less current liabilities		<u>8,796,082</u>	<u>12,865,974</u>

Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company				Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Retained earnings HK\$'000	Revaluation reserve HK\$'000	Foreign currency translation reserve HK\$'000			
At 31 December 2019 (Audited)	3,942,216	2,778,837	(167,158)	(25,913)	6,527,982	99,828	6,627,810
Profit for the period	-	280,721	-	-	280,721	(1,908)	278,813
Other comprehensive (loss)/income for the period	-	(3,144)*	48,137	(5,085)	39,908	(2,700)	37,208
Total comprehensive income for the period	-	277,577	48,137	(5,085)	320,629	(4,608)	316,021
Capital contribution by non-controlling interests	-	-	-	-	-	197,523	197,523
Final Dividend for 2019 (Note 10)	-	(246,095)	-	-	(246,095)	-	(246,095)
At 30 June 2020 (Unaudited)	3,942,216	2,810,319	(119,021)	(30,998)	6,602,516	292,743	6,895,259
At 31 December 2018 (Audited)	3,942,216	2,520,038	(170,708)	(17,472)	6,274,074	134	6,274,208
Impact on initial application of HKFRS 16	-	(4,418)	-	-	(4,418)	-	(4,418)
Adjusted balance at 1 January 2019	3,942,216	2,515,620	(170,708)	(17,472)	6,269,656	134	6,269,790
Profit for the period	-	253,891	-	-	253,891	366	254,257
Other comprehensive income/(loss) for the period	-	-	97,799	(5,772)	92,027	(284)	91,743
Total comprehensive income for the period	-	253,891	97,799	(5,772)	345,918	82	346,000
Capital contribution by non-controlling interests	-	-	-	-	-	33,138	33,138
Final Dividend for 2018 (Note 10)	-	(218,751)	-	-	(218,751)	-	(218,751)
Dividends paid by a subsidiary	-	-	-	-	-	(133)	(133)
At 30 June 2019 (Unaudited)	3,942,216	2,550,760	(72,909)	(23,244)	6,396,823	33,221	6,430,044

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

Condensed Consolidated Statement of Cash Flows

	Six months ended	
	30/6/2020 (Unaudited) HK\$'000	30/6/2019 (Unaudited) HK\$'000
Operating activities		
Profit before taxation	322,321	284,268
Adjustments for:		
Dividend income	(27,196)	(33,214)
Interest income from loans or clients	(188,666)	(189,282)
Interest income from financial assets	(271,502)	(132,369)
Other interest income	(16,443)	(23,853)
Finance costs	161,414	164,997
Depreciation	39,846	38,928
Change in impairment allowance	172,858	7,993
Revaluation gain on financial assets and liabilities measured at fair value through profit or loss	(269,086)	(122,126)
Revaluation loss on derivative financial assets and liabilities	7,286	684
Net gain on disposal of debt investments at fair value through other comprehensive income	(815)	–
Foreign exchange gain	(29,124)	(21,945)
Share of results of associates	26,007	(17,682)
Share of results of joint ventures	368	(23)
Operating cash flows before movements in working capital	(72,732)	(43,624)
Increase in other assets	(9,949)	(3,670)
Increase in financial assets at fair value through profit or loss	(1,554,063)	(1,280,283)
(Decrease)/increase in financial liabilities at fair value through profit or loss	(216,148)	157
(Increase)/decrease in derivative financial assets	(23,235)	4,397
Increase/(decrease) in derivative financial liabilities	19,166	(4,540)
Increase in accounts receivable	(1,226,582)	(245,645)
Decrease in margin loans to customers	292,604	578,708
(Increase)/decrease in loans and advances	(419,068)	760,808
Decrease/(increase) in receivable from reverse repurchase agreements	348,362	(54,474)
Decrease in amounts due from related parties	521	572
Decrease in amount due from an associate	299	–
Increase in amount due from a fellow subsidiary	–	(28)
Increase in other receivables and prepayments	(114,152)	(1,015,284)
Increase in accounts payable	807,804	198,197
Increase/(decrease) in amount due to the ultimate holding company	31,354	(480)
Increase/(decrease) in amount due to a fellow subsidiary	431	(83)
Decrease in provision for staff costs	(30,979)	(19,307)
Increase in other payables and accrued expenses	60,592	608,233
(Decrease)/increase in contract liabilities	(7,597)	7,232
Net cash used in operations	(2,113,372)	(509,114)

Condensed Consolidated Statement of Cash Flows (Continued)

	Six months ended	
	30/6/2020 (Unaudited) HK\$'000	30/6/2019 (Unaudited) HK\$'000
Income tax paid	(17,700)	(38,080)
Interest received from loans or clients	193,794	190,106
Other interest income received	17,968	24,853
Interest expenses paid	(160,043)	(150,621)
Net cash used in operating activities	(2,079,353)	(482,856)
Investing activities		
Dividend received	27,196	33,214
Interest income received	253,367	108,639
Purchase of property and equipment	(978)	(4,210)
Purchase of associates	–	(70,080)
Distribution from associates	86	–
Capital injection to joint ventures	(14,523)	–
Distribution from joint ventures	15	–
Purchase of financial assets at fair value through other comprehensive income	(1,106,657)	(1,453,199)
Proceeds on disposal of financial assets at fair value through other comprehensive income	677,312	215,417
Net cash used in investing activities	(164,182)	(1,170,219)
Financing activities		
Net drawdown of bank loans and other borrowings	2,451,783	1,912,761
Capital contribution by non-controlling interests	197,523	33,138
Dividend from a subsidiary paid to non-controlling interests	–	(133)
Principal elements of lease payments	(31,060)	(35,093)
Net cash generated from financing activities	2,618,246	1,910,673
Net increase in cash and cash equivalents	374,711	257,598
Cash and cash equivalents at 1 January	540,455	589,348
Effect of exchange rate changes on cash and cash equivalents	(1,310)	28,343
Cash and cash equivalents at 30 June	913,856	875,289

Notes to the Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

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

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

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

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

The financial information relating to the year ended 31 December 2019, that is included in the condensed consolidated interim report for the six months ended 30 June 2020 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

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

Notes to the Condensed Consolidated Financial Statements (Continued)

2. BASIS OF PREPARATION

This condensed consolidated interim financial statements for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34, 'Interim financial reporting' and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with HKFRSs.

To clarify the inadvertent clerical errors in the Interim Report 2019, HK\$9,149,000 of "trading gains" should read "trading losses" from the derivatives transactions for the period ended 30 June 2019 in Note 25 of the Interim Report 2019. The comparative figures in Note 24 have been restated. There is no impact on the profit before taxation for the corresponding period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2019, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2020.

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

- Definition of Material – Amendments to HKAS 1 and HKAS 8
- Definition of a Business – Amendments to HKFRS 3
- Revised Conceptual Framework for Financial Reporting
- COVID-19 – Related Rent Concessions – Amendments to HKFRS 16

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Notes to the Condensed Consolidated Financial Statements (Continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019, with the exception of changes in estimates that are required in determining the impairment losses and valuation of financial assets and fair value of financial instruments. The level of estimation uncertainty and judgement for the calculation of impairment allowance and valuation has significantly increased as a result of the economic effects of the COVID-19 pandemic, where the estimates are often based on future economic condition and sensitive to such condition changes.

5. SEGMENT INFORMATION

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

- (a) Brokerage segment provides securities trading and brokerage services.
- (b) Corporate finance and underwriting segment provides corporate finance services including equity underwriting, debt underwriting, sponsor services and financial advisory services to institutional clients.
- (c) Asset management and advisory segment offers traditional asset management products and services to third party clients. In addition, it also offers investment advisory services, portfolio management services and transaction execution services.
- (d) Margin financing segment provides securities-backed financial leverage for both retail and institutional customers.
- (e) Investment and loans segment engages in direct investment business including investments in various debt and equity securities, investments in companies and investments in loans.
- (f) Others include headquarter operations such as bank interest income, and interest expense incurred for general working capital purposes.

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

Notes to the Condensed Consolidated Financial Statements (Continued)

5. SEGMENT INFORMATION (continued)

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

	Six months ended 30 June 2020 (Unaudited)							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	
Total revenue								
Revenue								
Commission and fee income								
— External	82,030	44,647	74,426	-	-	-	-	201,103
— Internal	232	-	1,969	-	-	-	(2,201)	-
Interest income								
— External	-	-	-	83,560	105,106	-	-	188,666
— Internal	-	-	-	-	20,667	-	(20,667)	-
Proprietary trading income								
— External	-	-	-	-	541,632	-	-	541,632
— Internal	-	-	-	-	-	-	-	-
Other income	8,049	-	2,438	-	13,433	45,239	-	69,159
	<u>90,311</u>	<u>44,647</u>	<u>78,833</u>	<u>83,560</u>	<u>680,838</u>	<u>45,239</u>	<u>(22,868)</u>	<u>1,000,560</u>
Total expenses	(115,062)	(55,410)	(55,764)	(90,824)	(357,672)	-	22,868	(651,864)
Share of results of associates	-	-	-	-	(26,007)	-	-	(26,007)
Share of results of joint ventures	-	-	-	-	(368)	-	-	(368)
(Loss)/profit before taxation	<u>(24,751)</u>	<u>(10,763)</u>	<u>23,069</u>	<u>(7,264)</u>	<u>296,791</u>	<u>45,239</u>	<u>-</u>	<u>322,321</u>
Other disclosures								
Depreciation	(15,721)	(2,970)	(5,360)	(2,618)	(13,177)	-	-	(39,846)
Change in impairment allowance	(111)	(3)	-	(42,539)	(130,205)	-	-	(172,858)
Finance costs	(310)	(111)	(118)	(28,854)	(152,688)	-	20,667	(161,414)

Notes to the Condensed Consolidated Financial Statements (Continued)

5. SEGMENT INFORMATION (continued)

	Six months ended 30 June 2019 (Unaudited)							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	
Total revenue								
Revenue								
Commission and fee income								
— External	64,324	60,707	57,243	-	-	-	-	182,274
— Internal	203	-	1,864	-	-	-	(2,067)	-
Interest income								
— External	-	-	-	121,775	67,507	-	-	189,282
— Internal	-	-	-	-	26,072	-	(26,072)	-
Proprietary trading income								
— External	-	-	-	-	339,074	-	-	339,074
— Internal	-	-	-	-	-	-	-	-
Other income	10,427	-	160	-	7,473	46,533	-	64,593
	<u>74,954</u>	<u>60,707</u>	<u>59,267</u>	<u>121,775</u>	<u>440,126</u>	<u>46,533</u>	<u>(28,139)</u>	<u>775,223</u>
Total expenses	(95,634)	(76,156)	(58,434)	(67,761)	(238,814)	-	28,139	(508,660)
Share of results of associates	-	-	-	-	17,682	-	-	17,682
Share of results of joint ventures	-	-	-	-	23	-	-	23
(Loss)/profit before taxation	<u>(20,680)</u>	<u>(15,449)</u>	<u>833</u>	<u>54,014</u>	<u>219,017</u>	<u>46,533</u>	<u>-</u>	<u>284,268</u>
Other disclosures								
Depreciation	(15,514)	(2,835)	(5,299)	(5,879)	(9,401)	-	-	(38,928)
Change in impairment allowance	-	(7)	-	2,188	(10,174)	-	-	(7,993)
Finance costs	-	-	(155)	(39,364)	(151,550)	-	26,072	(164,997)

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
Total revenue from external customer by location of operations:		
— Hong Kong	960,562	739,225
— Mainland China	39,998	35,998
	<u>1,000,560</u>	<u>775,223</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

6. REVENUE AND OTHER INCOME

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
REVENUE		
COMMISSION AND FEE INCOME		
Brokerage commission	82,030	64,324
Corporate finance and underwriting fee	44,647	60,707
Asset management and advisory income	74,426	57,243
	<u>201,103</u>	<u>182,274</u>
INTEREST INCOME		
Interest income from margin financing	83,560	121,775
Interest income from loans and advances	84,098	46,742
Interest income from receivable from reverse repurchase agreements	21,008	20,765
	<u>188,666</u>	<u>189,282</u>
PROPRIETARY TRADING INCOME		
Net trading and investment income*		
— Net gain on financial assets at fair value through profit or loss	279,990	186,034
— Net loss on financial assets at fair value through other comprehensive income	(15,517)	(10,572)
— Net (loss)/gain on financial liabilities at fair value through profit or loss	(10,509)	780
— Net loss on derivative financial instruments	(8,515)	(427)
— Fair value changes from financial liabilities to the investors of the funds consolidated	(2,515)	(2,324)
Dividend income from		
— Financial assets at fair value through profit or loss	21,277	22,526
— Financial assets at fair value through other comprehensive income	5,919	10,688
Interest income from		
— Financial assets at fair value through profit or loss	133,609	67,689
— Financial assets at fair value through other comprehensive income	137,893	64,680
	<u>541,632</u>	<u>339,074</u>
	<u>931,401</u>	<u>710,630</u>

* During the Reporting Period, the Group has considered the disclosures of net trading gains/losses (including the realised and unrealised amounts) and the fair value changes of financial liabilities due to investors of a fund consolidated by the Group with reference to the relevance to the Group's business. Accordingly, the comparative figures have been re-presented. There is no impact on proprietary trading income and the profit before taxation for the corresponding period.

Notes to the Condensed Consolidated Financial Statements (Continued)

6. REVENUE AND OTHER INCOME (continued)

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
OTHER INCOME		
Handling fees	6,943	10,373
Other interest income	16,443	23,853
Exchange gains	29,124	21,945
Others	16,649	8,422
	69,159	64,593

7. CHANGE IN IMPAIRMENT ALLOWANCE

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
Change in impairment allowance on:		
Receivable from reverse repurchase agreements	11	(12)
Accounts receivable	113	36
Margin loans to customers	42,539	(2,188)
Loans and advances	(3,828)	(1,303)
Debt investments at FVOCI	134,227	10,976
Other receivables	(202)	484
Amounts due from related parties	(2)	–
	172,858	7,993

Notes to the Condensed Consolidated Financial Statements (Continued)

8. PROFIT BEFORE TAXATION

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
Profit before taxation has been arrived at after charging:		
Finance costs:		
— Interest expenses on subordinated loans from the ultimate holding company	16,349	14,539
— Interest expenses on bank loans from the ultimate holding company	11,963	12,930
— Interest expenses on bank loans and overdraft from other financial institutions	95,446	102,847
— Interest expenses on obligation under repurchase agreements	26,533	21,492
— Interest expenses on lease liabilities	1,381	2,145
— Others	44	116
	151,716	154,069
— Other borrowing costs to the ultimate holding company	875	744
— Other borrowing costs to other financial institutions	8,823	10,184
	161,414	164,997
Depreciation	39,846	38,928
Operating lease charges	1,694	1,390
Staff costs	156,513	185,581

Notes to the Condensed Consolidated Financial Statements (Continued)

9. INCOME TAX EXPENSE

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
Current tax:		
Hong Kong Profits Tax	40,031	29,017
PRC Enterprise Income Tax	9,201	5,204
(Over)/under provision in prior periods	(6,282)	298
Total current tax	42,950	34,519
Deferred tax:		
Provision for/(reversal of) temporary differences	558	(4,508)
Income tax expense recognised in profit or loss	43,508	30,011

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

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the current and prior period. 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%.

Notes to the Condensed Consolidated Financial Statements (Continued)

10. DIVIDENDS

Dividends approved during the interim period

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
Final dividend for previous financial year declared and approved of HK\$0.09 per ordinary share (2019: HK\$0.08 per ordinary share)	246,095	218,751

Dividends attributable to the interim period

No dividend was paid or declared by the Company for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

11. EARNINGS PER SHARE

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

	Six months ended	
	30/6/2020 (Unaudited)	30/6/2019 (Unaudited)
Profit attributable to shareholders of the Company (in HK\$'000)	280,721	253,891
Weighted average number of ordinary shares in issue (in '000 shares)	2,734,392	2,734,392
Earnings per share (in HKD per share)	0.10	0.09

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

Notes to the Condensed Consolidated Financial Statements (Continued)

12. 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 30 June 2020 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Designated at fair value through other comprehensive income upon initial recognition				
Equity securities	222,591	–	–	222,591
Preference shares	750,659	–	–	750,659
Unlisted equities	–	–	63,935	63,935
	<u>973,250</u>	<u>–</u>	<u>63,935</u>	<u>1,037,185</u>
Mandatorily measured at fair value through other comprehensive income				
Debt investments	3,765,044	–	154,720	3,919,764
	<u>4,738,294</u>	<u>–</u>	<u>218,655</u>	<u>4,956,949</u>
Analysed for reporting purposes:				
Non-current				3,704,098
Current				1,252,851
				<u>4,956,949</u>

	At 31 December 2019 (Audited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Designated at fair value through other comprehensive income upon initial recognition				
Equity securities	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>
Mandatorily measured at fair value through other comprehensive income				
Debt investments	3,635,117	–	155,460	3,790,577
	<u>4,390,530</u>	<u>–</u>	<u>240,009</u>	<u>4,630,539</u>
Analysed for reporting purposes:				
Non-current				3,172,930
Current				1,457,609
				<u>4,630,539</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

12. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets at fair value through profit or loss

	At 30 June 2020 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Designated at fair value through profit or loss upon initial recognition				
Equity securities	128,706	-	-	128,706
Debt investments	2,347	-	-	2,347
Preference shares	-	-	1,302,992	1,302,992
Unlisted equities	-	-	217,370	217,370
	<u>131,053</u>	<u>-</u>	<u>1,520,362</u>	<u>1,651,415</u>
Mandatorily measured at fair value through profit or loss				
Equity securities	694,354	-	-	694,354
Debt investments	4,268,066	-	-	4,268,066
Club debenture	-	-	1,920	1,920
Funds	42,768	-	-	42,768
Unlisted funds	-	-	1,650,176	1,650,176
Structured financial products	-	-	21,027	21,027
	<u>5,005,188</u>	<u>-</u>	<u>1,673,123</u>	<u>6,678,311</u>
	<u>5,136,241</u>	<u>-</u>	<u>3,193,485</u>	<u>8,329,726</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

12. FINANCIAL ASSETS AND LIABILITIES (continued)

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

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

Derivative financial assets

	At 30 June 2020 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Derivative financial assets	<u>25,443</u>	<u>2,109</u>	<u>–</u>	<u>27,552</u>

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

Notes to the Condensed Consolidated Financial Statements (Continued)

12. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial liabilities at fair value through profit or loss

	At 30 June 2020 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Designated at fair value through profit or loss upon initial recognition				
Financial liabilities to the investors of the funds consolidated	(12,570)	–	–	(12,570)
Notes payable	–	(465,554)	–	(465,554)
Structured note payable	–	–	(28,623)	(28,623)
	<u>(12,570)</u>	<u>(465,554)</u>	<u>(28,623)</u>	<u>(506,747)</u>

	At 31 December 2019 (Audited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Designated at fair value through profit or loss upon initial recognition				
Financial liabilities to the investors of the funds consolidated	(11,765)	–	–	(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 30 June 2020 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Derivative financial liabilities	–	(31,487)	–	(31,487)

	At 31 December 2019 (Audited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Derivative financial liabilities	–	(2,942)	–	(2,942)

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

Notes to the Condensed Consolidated Financial Statements (Continued)

13. INTEREST IN ASSOCIATES

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Unlisted investment at the beginning of the period/year	372,006	213,401
Addition for the period/year	–	158,664
Transfer during the period/year	–	(59)
	372,006	372,006
Profit after acquisition		
— As at 1 January	26,723	152
— Share of (loss)/profit for the period/year	(26,007)	26,571
Distribution for the period/year	(86)	–
Accumulated exchange difference arising from translation of foreign operations	(7,681)	(4,765)
	364,955	393,964

14. LOANS AND ADVANCES

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Gross loans and advances	2,753,320	2,334,252
Less: impairment allowance	(3,929)	(7,757)
	2,749,391	2,326,495
Net loans and advances:		
Non-current	1,675,933	1,509,172
Current	1,073,458	817,323
	2,749,391	2,326,495

There was no past due but not impaired loans and advances as at 30 June 2020 and 31 December 2019.

Notes to the Condensed Consolidated Financial Statements (Continued)

15. RECEIVABLE FROM REVERSE REPURCHASE AGREEMENTS

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Gross receivable from reverse repurchase agreements	256,221	604,583
Less: impairment allowance	(11)	–
	<u>256,210</u>	<u>604,583</u>
Net receivable from reverse repurchase agreements:		
Non-current	146,363	224,987
Current	109,847	379,596
	<u>256,210</u>	<u>604,583</u>

As at 30 June 2020, the fair value of the collateral allowed to be repledging for the outstanding receivable was HK\$296,270 thousand (31 December 2019: HK\$1,167,434 thousand).

16. ACCOUNTS RECEIVABLE

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Corporate finance and underwriting business	26,767	14,498
Dealing in securities and futures business		
— Clients	1,304,560	106,816
— Brokers	197,643	126,883
— Clearing house	206,403	265,788
	1,708,606	499,487
Less: impairment allowance	(2,169)	(2,056)
	<u>1,733,204</u>	<u>511,929</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

16. 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:

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Neither past due nor credit-impaired	1,721,366	510,474
Less than 31 days past due	7,808	22
31–60 days past due	–	2
61–90 days past due	251	–
Over 90 days past due	5,948	3,487
	14,007	3,511
Less: impairment allowance	(2,169)	(2,056)
	<u>1,733,204</u>	<u>511,929</u>

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.

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 Condensed Consolidated Financial Statements (Continued)

17. OTHER RECEIVABLES AND PREPAYMENTS

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Other receivables	429,516	296,109
Less: impairment allowance	(808)	(1,010)
	428,708	295,099
Prepayments	43,590	51,363
	472,298	346,462

18. MARGIN LOANS TO CUSTOMERS

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Gross margin loans to customers	2,434,382	2,774,924
Less: impairment allowance	(90,287)	(95,684)
	2,344,095	2,679,240

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

Notes to the Condensed Consolidated Financial Statements (Continued)

19. CASH AND BANK BALANCES

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Current and savings accounts	913,856	540,455
Time deposits with original maturity of more than three months	1,696	1,696
Restricted cash	2,990	2,990
	<u>918,542</u>	<u>545,141</u>

20. BORROWINGS

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Bank loans and other borrowings		
Non-current – ultimate holding company (Note 24)	–	450,000
Non-current – authorised institutions	–	4,514,230
	–	<u>4,964,230</u>
Current – ultimate holding company (Note 24)	682,080	–
Current – authorised institutions	7,676,037	3,216,467
	<u>8,358,117</u>	<u>3,216,467</u>
Obligation under repurchase agreements		
Non-current	859,643	248,915
Current	2,840,866	1,222,714
	<u>3,700,509</u>	<u>1,471,629</u>
Subordinated loans (Note 24)		
Non-current	1,000,000	1,000,000
Total	<u>13,058,626</u>	<u>10,652,326</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

20. BORROWINGS (continued)

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

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Bank loans and other borrowings		
Within 1 year	11,198,983	4,439,181
Between 1 and 2 years	295,053	5,213,145
Between 2 and 5 years	426,773	–
Over 5 years	137,817	–
	12,058,626	9,652,326
Undated	1,000,000	1,000,000
	13,058,626	10,652,326

21. ACCOUNTS PAYABLE

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

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Clients – trade settlement	527,877	367,768
Clearing house	254,922	36,679
Brokers	430,448	996
	1,213,247	405,443

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

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

22. CONTRACT LIABILITIES

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Contract liabilities	47,882	55,479

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 Condensed Consolidated Financial Statements (Continued)

23. SHARE CAPITAL

	Number of shares		Share capital	
	Six months ended 30/6/2020 Thousand Shares (Unaudited)	Year ended 31/12/2019 Thousand Shares (Audited)	Six months ended 30/6/2020 HK\$'000 (Unaudited)	Year ended 31/12/2019 HK\$'000 (Audited)
Issued and fully paid				
At the end of the reporting period	2,734,392	2,734,392	3,942,216	3,942,216

24. RELATED PARTY TRANSACTIONS

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

(a) Ultimate holding company

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
Transaction		
Interest income from deposits	843	3,933
Finance costs	29,187	28,213
Commission expenses	940	1,262
Asset management and advisory income	1,227	2,007
Fund management fee income	9,893	9,893
Rental expenses	148	146
Other operating expenses	733	775
Trading gain from derivatives transactions*	222,184	–
Trading loss from derivatives transactions*	–	9,149
Realised gain on financial assets at fair value through profit or loss	25	1,210
Unrealised gain on financial assets at fair value through profit or loss	–	3,335
Unrealised loss on financial assets at fair value through profit or loss	12	–

* Trading gain/loss from derivative 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 with third parties.

Notes to the Condensed Consolidated Financial Statements (Continued)

24. RELATED PARTY TRANSACTIONS (continued)

(a) Ultimate holding company (continued)

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Balance of transaction		
Derivative financial assets	–	701
Derivative financial liabilities	25,293	–
Borrowings	682,080	450,000
Subordinated loans	1,000,000	1,000,000
Accounts receivable	278,343	–
Accounts payable	–	95,922
Amount due to the ultimate holding company	36,813	5,459

(b) Fellow subsidiaries, associates and joint ventures

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
Transaction		
Interest income from deposits	14	19
Commission income	5,226	3,737
Commission expenses	1,716	558
Asset management and advisory income*	2,275	876
Fund management fee income	8,377	1,428
Underwriting fee income*	2,765	3,720
Rental expenses	4,242	4,524
Other operating expenses	1,340	1,176

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Balance of transaction		
Amount due from an associate	248	547
Amount due to a fellow subsidiary	486	55

* During the Reporting Period, the Group has reclassified certain asset management and advisory income in prior period to underwriting fee income to conform with the current year presentation. There is no impact on the profit before taxation for the corresponding period.

Notes to the Condensed Consolidated Financial Statements (Continued)

24. RELATED PARTY TRANSACTIONS (continued)

(c) Related parties

	Six months ended	
	30/6/2020 HK\$'000 (Unaudited)	30/6/2019 HK\$'000 (Unaudited)
Transaction		
Interest income from debt investment	–	441
Fund management fee income	10,316	8,556
	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Balance of transaction		
Gross amounts due from related parties	1,420	1,941
Less: impairment allowance	(2)	(4)
	1,418	1,937

25. COMMITMENTS

Operating leases commitments

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

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
No later than 1 year	2	13
Later than 1 year and no later than 5 years	–	–
	2	13

Notes to the Condensed Consolidated Financial Statements (Continued)

25. COMMITMENTS (continued)

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.

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Unfunded commitments	162,688	169,575

Loan commitments

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

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Under 1 year	–	97,163
Later than 1 year and no later than 5 years	74,833	–
	74,833	97,163

Notes to the Condensed Consolidated Financial Statements (Continued)

26. CONTINGENT LIABILITIES AND OTHERS

Return guarantee in providing asset management service

In connection with the Group's asset management services, the Group entered into an asset management service agreement with a client in August 2015 which also provides the client with a minimum return guarantee on the investment principal. The investment principal amounted to MOP500,000,000. This service agreement expired in August 2020.

In November 2016, the Group entered into another asset management service agreement with the same client on similar terms for an additional investment principal of MOP500,000,000, which will expire in November 2021. In March 2018, the Group entered into a third asset management service agreement with the same client on similar terms for an additional investment principal of MOP2,000,000,000, which will expire in March 2023.

The Group 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. The underlying investment portfolios mainly consist of fixed income instruments. The average yield of the underlying investment portfolios will be evaluated twice a year in June and December until the maturity of the respective service contracts. If the average yield were below the level of guaranteed return, the Group shall make up the shortfall through paying cash into the client's account under management. Subsequently, if the performance of the underlying investment portfolios recovers and exceeds the minimum guaranteed return on a cumulative basis, the Group is entitled to obtain the payment made previously in the last evaluation(s) to the extent the average yield as of the evaluation date shall be no less than the level of guaranteed return.

As at 31 December 2019, the average cumulative yield of the underlying investment portfolios was above the level of guaranteed return thus no cash payment was required. As at 30 June 2020, the average cumulative yield of one of the underlying investment portfolios was below the level of guaranteed return and the Group has paid a cash amount of HK\$73,000,000 or MOP75,190,000 accordingly. The Group does not expect to incur loss in relation to the cash payment in fulfilling the return guarantee by assessing the estimated future performance of the underlying investment portfolios. Such assessment involved significant management judgement on the future economic environment and conditions which might significantly affect the performance of the investment portfolios.

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, loans and receivables (made up of other assets, accounts and other receivables, loans and advances), margin loans to customers, receivable from reverse repurchase agreements, amounts due from an associate and related parties, cash and bank balances, accounts payable, borrowings, obligation under repurchase agreements, lease liabilities, subordinated loans from the ultimate holding company and amount due to the ultimate holding company 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 in level of uncertainty of global economics, which bring 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 the first half of 2020.

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with disclosure in the consolidated financial statements for the year ended 31 December 2019.

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK EXPOSURE OF FINANCIAL INSTRUMENTS

Analysis of the gross carrying amount of financial instruments for which an expected credit loss ("ECL") allowance is recognised as follows according to the stage of ECL:

	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	
(a) Margin loans to customers				
Gross carrying amount as at 1 January 2020	2,179,041	305,401	290,482	2,774,924
Increases	504,553	5,905	3,021	513,479
Decreases	(778,148)	(3,101)	(24,836)	(806,085)
Write-off	–	–	(47,936)	(47,936)
Transfers between stages				
— Increase	160,956	18,931	214,410	394,297
— Decrease	(18,931)	(216,891)	(158,475)	(394,297)
As at 30 June 2020	<u>2,047,471</u>	<u>110,245</u>	<u>276,666</u>	<u>2,434,382</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) Accounts receivable, other receivables, and amounts due from an associate and related companies				
Gross carrying amount as at 1 January 2020	810,346	–	2,236	812,582
Increases	1,355,183	–	6,264	1,361,447
Decreases	(6,552)	(532)	(388)	(7,472)
Transfers between stages				
— Increase	–	4,378	4,430	8,808
— Decrease	(8,808)	–	–	(8,808)
As at 30 June 2020	<u>2,150,169</u>	<u>3,846</u>	<u>12,542</u>	<u>2,166,557</u>
Gross carrying amount as at 1 January 2019	879,693	–	1,682	881,375
Increases	73,300	–	440	73,740
Decreases	(142,533)	–	–	(142,533)
Transfers between stages				
— Increase	–	–	114	114
— Decrease	(114)	–	–	(114)
As at 31 December 2019	<u>810,346</u>	<u>–</u>	<u>2,236</u>	<u>812,582</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK EXPOSURE OF FINANCIAL INSTRUMENTS (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	
(c) Debt investments at FVOCI				
Gross carrying amount as at 1 January 2020	3,614,637	95,506	80,434	3,790,577
Increases	928,941	4,806	959	934,706
Decreases	(665,839)	(87,639)	(52,041)	(805,519)
Transfers between stages				
— Increase	—	343,858	84,835	428,693
— Decrease	(343,858)	(84,835)	—	(428,693)
As at 30 June 2020*	<u>3,533,881</u>	<u>271,696</u>	<u>114,187</u>	<u>3,919,764</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) Other financial assets at amortised cost				
Gross carrying amount as at 1 January 2020	2,938,835	—	—	2,938,835
Increases	590,622	—	—	590,622
Decreases	(519,916)	—	—	(519,916)
As at 30 June 2020	<u>3,009,541</u>	<u>—</u>	<u>—</u>	<u>3,009,541</u>
Gross carrying amount as at 1 January 2019	2,052,827	—	270,970	2,323,797
Increases	2,063,463	—	—	2,063,463
Decreases	(1,177,455)	—	—	(1,177,455)
Write-off	—	—	(270,970)	(270,970)
As at 31 December 2019	<u>2,938,835</u>	<u>—</u>	<u>—</u>	<u>2,938,835</u>

* Debt investments measured at FVOCI are measured at fair value with the allowance for ECL (as disclosed on page 58) as a memorandum item. Change in ECL allowance is disclosed in Note 7.

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK EXPOSURE OF FINANCIAL INSTRUMENTS (continued)

As at 30 June 2020 and 31 December 2019, the Group's credit risk exposure of financial instruments for which an ECL allowance is recognised as follows according to the stage of ECL:

	Stage of assets			Total 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	490	122	42,134	42,746
Reverses	(203)	(4)	–	(207)
Write-off	–	–	(47,936)	(47,936)
Transfers between stages				
— Increase	–	12	4,127	4,139
— Decrease	(12)	(4,127)	–	(4,139)
As at 30 June 2020	<u>2,458</u>	<u>764</u>	<u>87,065</u>	<u>90,287</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) Accounts receivable, other receivables, and amounts due from an associate and related parties				
As at 1 January 2020	1,166	–	1,904	3,070
Increases	285	–	13	298
Reverses	(257)	(19)	(113)	(389)
Transfers between stages				
— Increase	–	35	35	70
— Decrease	(70)	–	–	(70)
As at 30 June 2020	<u>1,124</u>	<u>16</u>	<u>1,839</u>	<u>2,979</u>
As at 1 January 2019	281	–	1,683	1,964
Increases	943	–	221	1,164
Reverses	(58)	–	–	(58)
As at 31 December 2019	<u>1,166</u>	<u>–</u>	<u>1,904</u>	<u>3,070</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK EXPOSURE OF FINANCIAL INSTRUMENTS (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	10,174	9,723	122,450	142,347
Reverses	(8,072)	(48)	–	(8,120)
Transfers between stages				
— Increase	–	3,019	5,565	8,584
— Decrease	(3,019)	(5,565)	–	(8,584)
As at 30 June 2020	<u>21,808</u>	<u>12,775</u>	<u>149,670</u>	<u>184,253</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) Other financial assets at amortised cost				
As at 1 January 2020	7,757	–	–	7,757
Increases	1,740	–	–	1,740
Reverses	(5,557)	–	–	(5,557)
As at 30 June 2020	<u>3,940</u>	<u>–</u>	<u>–</u>	<u>3,940</u>
As at 1 January 2019	2,295	–	270,970	273,265
Increases	7,467	–	–	7,467
Reverses	(2,005)	–	–	(2,005)
Write-off	–	–	(270,970)	(270,970)
As at 31 December 2019	<u>7,757</u>	<u>–</u>	<u>–</u>	<u>7,757</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

CREDIT RISK EXPOSURE OF FINANCIAL INSTRUMENTS (continued)

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

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

The impairment allowance calculation as at 31 December 2019, on a forward-looking basis, have not considered 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".

By applying the sensitivity of the impairment allowance results against the forward-looking macroeconomic variables where Optimistic and Pessimistic scenario weights both arise by 10% and Basic scenario weight is lowered by 20%, the impairment allowance of loans and advances will increase by HK\$2,712 thousand, the impairment of debt securities will increase by HK\$5,784 thousand and impairment allowance of margin finance will increase by HK\$1,076 thousand.

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE ON RECURRING BASIS

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

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

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE ON RECURRING BASIS (continued)

Level 3 financial instruments are valued using models which utilise observable Level 1 and/or Level 2 inputs, as well as unobservable Level 3 inputs.

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

As at 30 June 2020	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income				
Unlisted equities	Allocated net asset value	Net asset value	N/A	(iv)
	Market comparable approach	EBITDA multiples Discount rate for lack of marketability	10.7x–27.2x 35%	(iii) (ii)
Debt investment	Recent transaction price	(i)	N/A	N/A
	Recent transaction price	(i)	N/A	N/A
Financial assets at fair value through profit or loss				
Club debenture	Recent transaction price	Liquidity discount rate	25%	(ii)
	Recent transaction price	(i)	N/A	N/A
Unlisted equities	Allocated net asset value	Net asset value	N/A	(iv)
	Unlisted funds	Market comparable approach	Sales multiples Discount rate for lack of marketability	1x–21.2x 15.87%–20.70%
Allocated net asset value		Net asset value	N/A	(iv)
Preference shares	Recent transaction price of underlying investment portfolio	(i)	N/A	N/A
	Recent transaction price	(i)	N/A	N/A
Structured financial products	Market comparable approach	Sales multiples Discount rate for lack of marketability	11x–21.2x 15.87%	(iii) (ii)
	Guaranteed principal plus expected return	Expected rate	N/A	(v)
Financial liabilities at fair value through profit or loss				
Structured note payable	Recent transaction price	(i)	N/A	N/A

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE ON RECURRING BASIS (continued)

As at 31 December 2019	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income				
Unlisted equities	Allocated net asset value	Net asset value	N/A	(iv)
	Market comparable approach	EBITDA multiples	10.7x–27.2x	(iii)
		Discount rate for lack of marketability	35%	(ii)
Debt investment	Recent transaction price	(i)	N/A	N/A
	Recent transaction price	(i)	N/A	N/A
Financial assets at fair value through profit or loss				
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	(iv)
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)/ Underlying fund terms	14.6%/N/A/ Within 1 year	(ii)/N/A/(vi)
Structured financial products	Guaranteed principal plus expected return	Expected rate	N/A	(v)
Financial liabilities at fair value through profit or loss				
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 Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE ON RECURRING BASIS (continued)

- (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 rate, the higher the fair value.
- (vi) The longer the term of the underlying fund, the higher the fair value.

The following table presents the changes in Level 3 instruments for the six months ended 30 June 2020 and for the year ended 31 December 2019.

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Financial assets at fair value through other comprehensive income		
Beginning of the period/year	240,009	125,301
Addition during the period/year	–	178,658
Disposal during the period/year	(13,720)	(58,737)
Net loss recognised in profit or loss	(740)	(1,080)
Net loss recognised in other comprehensive income	(6,894)	(4,133)
End of the period/year (Note 12)	218,655	240,009

Notes to the Condensed Consolidated Financial Statements (Continued)

27. FINANCIAL RISK MANAGEMENT (continued)

FAIR VALUE OF THE GROUP'S FINANCIAL ASSETS AND FINANCIAL LIABILITIES THAT ARE MEASURED AT FAIR VALUE ON RECURRING BASIS (continued)

	30/6/2020 HK\$'000 (Unaudited)	31/12/2019 HK\$'000 (Audited)
Financial assets at fair value through profit or loss		
Beginning of the period/year	3,504,300	3,483,928
Addition during the period/year	174,897	892,743
Disposal during the period/year	(629,276)	(1,006,052)
Net gain recognised in profit or loss	143,564	133,681
End of the period/year (Note 12)	<u>3,193,485</u>	<u>3,504,300</u>
Financial liabilities at fair value through profit or loss		
Beginning of the period/year	19,432	19,550
Addition during the period/year	9,283	–
Net gain recognised in profit or loss	(92)	(118)
End of the period/year (Note 12)	<u>28,623</u>	<u>19,432</u>

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

Glossary

“1H”	the first six months of a particular calendar year
“AUM”	the amount of assets under management
“Board” or “Board of Directors”	the Board of Directors of the Company
“BOCOM”	Bank of Communications Co., Ltd. (交通銀行股份有限公司), established in 1908, a company registered in the PRC as a joint stock limited liability company on 24 December 2004, the H shares and A shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange, respectively, and the ultimate controlling shareholder of the Company
“BOCOM Financial Technology”	BOCOM Financial Technology Company Limited (交銀金融科技有限公司), a company incorporated in the PRC with limited liability on 25 August 2020, a subsidiary of BOCOM International (Shanghai) and an indirect subsidiary of the Company
“BOCOM Group”	BOCOM and its subsidiaries (excluding the Group)
“BOCOM International (Shanghai)”	BOCOM International (Shanghai) Equity Investment Management Company Limited (交銀國際(上海)股權投資管理有限公司), a company incorporated in the PRC with limited liability on 25 October 2010 and a subsidiary of the Company
“BOCOM International (Shenzhen)”	BOCOM International Equity Investment Management (Shenzhen) Company Limited (交銀國際股權投資管理(深圳)有限公司), a company incorporated in the PRC with limited liability on 3 February 2016, a subsidiary of BOCOM International Asset Management Limited and an indirect subsidiary of the Company
“BOCOM Nominee”	Bank of Communications (Nominee) Company Limited, a company incorporated in Hong Kong with limited liability on 21 August 1981 and a subsidiary of BOCOM and a shareholder of the Company holding Shares on trust for BOCOM
“BOCOM Science and Technology Innovation 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
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

“Company” or “BOCOM International”	BOCOM International Holdings Company Limited (交銀國際控股有限公司), a company incorporated in Hong Kong with limited liability on 3 June 1998, the issued Shares of which are listed on the Main Board of the Stock Exchange
“Corporate Governance Code”	code on corporate governance practices contained in Appendix 14 to the Listing Rules
“Director(s)”	director(s) of the Company
“Expectation Investment”	Expectation Investment Limited, a company incorporated in Hong Kong with limited liability on 29 January 1997, an indirect subsidiary of BOCOM and a shareholder of the Company
“GDP”	gross domestic product
“Group” or “we” or “us”	the Company and its subsidiaries
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“IPO(s)”	initial public offering(s)
“Listing”	listing of the shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
“Minrui Fund”	Shenzhen Minrui Jiaoyin International Equity Investment Partnership Enterprise (Limited Partnership) (深圳敏睿交盈國際股權投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“MOP”	Macau Pataca, the lawful currency of Macau
“MSCI”	the Morgan Stanley Capital International Index
“PRC” or “China”	People’s Republic of China
“Prospectus”	the prospectus of the Company dated 5 May 2017
“Reporting Period”	the six months ended 30 June 2020
“RMB”	Renminbi, the lawful currency of the PRC

Glossary

“Science and Technology Innovation Board (STAR Market)”	the Sci-Tech Innovation Board of the Shanghai Stock Exchange
“SFC”	Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shanghai Stock Exchange”	the Shanghai Stock Exchange (上海證券交易所)
“Share(s)”	ordinary share(s) in the capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange” or “HKEX”	The Stock Exchange of Hong Kong Limited
“TMT”	telecommunications, media and technology
“US” or “United States”	the United States of America
“USD” or “US\$”	United States dollars, the lawful currency of the United States