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*The material contained in this announcement is not for distribution or circulation, directly or indirectly, in or into the United States. This announcement is solely for the purpose of reference and does not constitute an offer to sell or an invitation or solicitation of an offer to acquire, purchase or subscribe for any securities in the United States or any other jurisdiction in which such offer, invitation, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. The securities referred to herein have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and shall not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the securities are being offered and sold only outside the United States in an offshore transaction in compliance with Regulation S under the Securities Act.*

***This announcement and the listing documents referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document) forms the basis for any contract or commitment whatsoever.** For the avoidance of doubt, the publication of this announcement and the listing documents referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the Issuer (as defined below) for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.*

*Notice to Hong Kong investors: The Issuer and the Guarantor (as defined below) confirm that the Notes (as defined below) are intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) ("**Professional Investors**") only and will be listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") on that basis. Accordingly, the Issuer and the Guarantor confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

BOCOM INTERNATIONAL BLOSSOM LIMITED

(incorporated with limited liability in the British Virgin Islands)

as Issuer (the "Issuer")

unconditionally and irrevocably guaranteed by

交 銀 國 際
BOCOM International

BOCOM INTERNATIONAL HOLDINGS COMPANY LIMITED
交銀國際控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 3329)

as Guarantor (the "Guarantor")

U.S.$500,000,000 MEDIUM TERM NOTE PROGRAMME (THE "PROGRAMME")

This announcement is issued pursuant to Rule 37.39A of the Listing Rules.

Please refer to the offering circular in respect of the Programme dated 4 June 2021 (the "**Offering Circular**"), appended hereto.

The Programme has been listed on the Hong Kong Stock Exchange by way of debt issues to Professional Investors only during the 12-month period after the date of the Offering Circular. The notes to be issued under the Programme (the "**Notes**") are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. The Issuer may also issue unlisted Notes pursuant to the Programme.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any Notes of the Issuer or the Guarantor, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

By Order of the Board
BOCOM International Holdings Company Limited
YI Li
Company Secretary

Hong Kong, 7 June 2021

As at the date of this announcement, the Board comprises Mr. TAN Yueheng, Mr. MENG Yu and Mr. CHENG Chuange as Executive Directors; Ms. LIN Zhihong, Mr. SHOU Fugang and Ms. PO Ying as Non-executive Directors; and Mr. TSE Yung Hoi, Mr. MA Ning and Mr. LIN Zhijun as Independent Non-executive Directors.

IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES OR, IN RESPECT OF ANY OFFERING OF SECURITIES UNDER CATEGORY 2 OF REGULATION S OF THE SECURITIES ACT (AS DEFINED BELOW), TO ANY U.S. PERSON OR TO ANY PERSON OR ADDRESS IN THE UNITED STATES

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached offering circular (the "**Offering Circular**"). You are therefore advised to read this disclaimer carefully before reading, accessing or making any other use of the attached. In accessing the attached, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information as a result of such access. You acknowledge that the access to the Offering Circular is intended for use by you only and you agree you will not forward or otherwise provide access to any other person.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTIONS AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR, IN RESPECT OF ANY OFFERING OF SECURITIES UNDER CATEGORY 2 OF REGULATION S OF THE SECURITIES ACT, TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

THE OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY ADDRESS IN THE UNITED STATES OR TO ANY U.S. PERSON. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: This Offering Circular is being sent at your request and by accepting the e-mail and accessing this Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States and neither you nor any customer you represent is a U.S. person and that you consent to delivery of such offering circular by electronic transmission. To the extent you purchase the securities described in the attached document, you will be doing so in an offshore transaction as defined in regulations under the Securities Act in compliance with Regulation S thereunder.

You are reminded that the information in the Offering Circular is not complete and may be changed. You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached Offering Circular.

The materials relating to the offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Dealers or any affiliate of the Dealers (as defined in this Offering Circular) is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Dealers or such affiliate on behalf of the Issuer (as defined in this Offering Circular) in such jurisdiction.

Restrictions: Nothing in this electronic transmission constitutes, and may not be used in connection with, an offer or an invitation by or on behalf of any of the Issuer, the Guarantor (as defined in this Offering Circular), the Dealers or the Arrangers (as defined in this Offering Circular) to subscribe or purchase any of the securities described therein, in any place where offers or solicitations are not permitted by law and access has been limited so that it shall not constitute in the United States or elsewhere directed selling efforts (within the meaning of Regulation S under the Securities Act).

MiFID II product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers, the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

You are reminded that you have accessed the attached Offering Circular on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver or forward this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

The attached document has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Dealers, the Trustee (as defined in this Offering Circular) or the Agents (each as defined in this Offering Circular) and any person who controls any of them nor any of their respective directors, employees, representatives, officers, agents, advisers or affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. **A hard copy version will be provided to you upon request.**

Actions that You May Not Take: You should not reply by e-mail to this communication, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING CIRCULAR, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING CIRCULAR IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING CIRCULAR IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

US$500,000,000
Medium Term Note Programme

BOCOM International Blossom Limited

(a BVI business company incorporated with limited liability in the British Virgin Islands)

unconditionally and irrevocably guaranteed by

交銀國際
BOCOM International

BOCOM INTERNATIONAL HOLDINGS COMPANY LIMITED
交銀國際控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 3329)

Under the US$500,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), BOCOM International Blossom Limited (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes (the "**Notes**") unconditionally and irrevocably guaranteed (the "**Guarantee**") by BOCOM International Holdings Company Limited (the "**Guarantor**"). The Issuer is a direct wholly-owned subsidiary of the Guarantor.

The Notes may be issued in bearer or registered form. The aggregate nominal amount of the Notes outstanding will not at any time exceed US$500,000,000 (or its equivalent in other currencies, subject to any duly authorised increase). The Notes may be issued on a continuing basis to the Dealers specified under "*Summary of the Programme*" or any additional dealer appointed under the Programme from time to time by the Issuer and the Guarantor (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "relevant Dealer" shall, in the case of an issue of the Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Application has been made to The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" or "**SEHK**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the "**Listing Rules**") only ("**Professional Investors**") during the 12 months period after the date of this Offering Circular. This Offering Circular is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer and the Guarantor confirm that the Notes are intended for purchase by Professional Investors only and will be listed on the Stock Exchange on that basis. Accordingly, the Issuer and the Guarantor confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes, or the Issuer or the Guarantor or quality of disclosure in this document. The Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, the issue price of the Notes and any other terms and conditions not contained herein which are applicable to each Series or Tranche (as defined in the "*Summary of the Programme*") of the Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to the Notes to be listed on the Stock Exchange, will be delivered to the Stock Exchange, on or before the date of issue of the Notes of such Series or Tranche. This Offering Circular may not be used to consummate sales of the Notes, unless accompanied by a Pricing Supplement. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed and, if listed whether such listing will be, on the Stock Exchange or any other stock exchange.

Each Series of Notes in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note (each a "**Temporary Global Note**") or a permanent global note (each a "**Permanent Global Note**"), and will be sold to non-U.S. persons in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**" or "**U.S. Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in Permanent Global Notes (together with the Temporary Global Notes, the "**Global Notes**"), or if so stated in the relevant Pricing Supplement, definitive notes ("**Definitive Notes**"), on or after the Exchange Date (as defined herein), upon certification as to non-U.S. beneficial ownership. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part as described under "*Summary of the Provisions of the Notes while in Global Form*".

The Notes and the Guarantee have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes and the Guarantee may not be offered or sold or, in the case of Bearer Notes, delivered in the United States or, in the case of Notes being offered or sold in reliance on Category 2 of Regulation S of the Securities Act, to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless an exemption from the registration requirement of the Securities Act is available and in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. For a description of certain restrictions on transfer, see "*Subscription and Sale*".

The Programme has been assigned a rating of "A" by Fitch Ratings Ltd. ("**Fitch**"). In addition, the Guarantor has been assigned a rating of "A3" by Moody's and a rating of "A" by Fitch. These ratings are only correct as of the date of this Offering Circular. Tranches or Series of Notes (as defined in "*Summary of the Programme*") to be issued under the Programme may be rated or unrated. Where a Tranche or Series of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. A rating does not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.

Where the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資 [2015] 2044 號)) promulgated by the National Development and Reform Commission of the PRC (the "**NDRC**") and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the "**NDRC Circular**") apply to a Series or Tranche of Notes to be issued, (x) a pre-issuance registration certificate issued to BOCOM (as defined below) by the NDRC pursuant to the NDRC Circular, and (y) an approval or confirmation provided by BOCOM which authorises the Issuer to use its foreign debt issuance quota under its pre-issuance registration certificate granted by the NDRC for the offering of the Notes shall have been obtained pursuant to the NDRC Circular, as set forth in the applicable Pricing Supplement. After issuance of each Series or Tranche of the Notes, the Issuer and the Guarantor shall report, or cause BOCOM to report the issuance information to the NDRC within the applicable prescribed timeframe after the completion of each such issuance.

Investing in the Notes issued under the Programme involves certain risks and may not be suitable for all investors. See "*Risk Factors*" beginning on page 23 for a discussion of factors that you should consider carefully before investing in the Notes.

Arrangers and Dealers

BOCOM International **Bank of Communications**

Offering Circular dated 4 June 2021

IMPORTANT NOTICE

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities to which it relates, or an offer to sell or the solicitation of an offer to buy such securities by any person in any circumstances in which such offer or solicitation is unlawful. In addition, there may be legal restrictions on the distribution of this Offering Circular and the offering of the Notes in certain jurisdictions. If you come into possession of this Offering Circular, the Issuer, the Guarantor and BOCOM International Securities Limited and Bank of Communications Co., Ltd. Hong Kong Branch (the "Arrangers" and "Dealers") require that you inform yourself about and observe any such restrictions.

The Notes have not been and will not be registered under the Securities Act, and Bearer Notes are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States or (in the case of Category 2 of Regulation S Notes) to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act). For a further description of certain restrictions on the offering and sale of the Notes and on distribution of this Offering Circular, see "*Subscription and Sale*" and the applicable Pricing Supplement.

This Offering Circular includes particulars given in compliance with the Listing Rules (as defined below) for the purpose of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular and the Pricing Supplement for each Series or Tranche of Notes issued under the Programme and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

This Offering Circular is solely for the purpose of enabling you to consider the purchase of the Notes. If you have any doubt about this Offering Circular, you should consult your bank manager, legal counsel, professional accountant or other professional advisor. Each prospective investor will be deemed to acknowledge that it has not relied on the Arrangers, the Dealers (as defined below), Bank of Communications Trustee Limited as trustee (the "**Trustee**"), Bank of Communications Co., Ltd. Hong Kong Branch as issuing and paying agent (the "**Issuing and Paying Agent**"), as CMU lodging and paying agent (the "**CMU Lodging and Paying Agent**", together with the Issuing and Paying Agent, the "**Paying Agents**") and as transfer agent (the "**Transfer Agent**") and registrar (the "**Registrar**", together with the Issuing and Paying Agent, CMU Lodging and Paying Agent, Paying Agents and Transfer Agent the "**Agents**"), any person who controls any of them and any of their respective directors, employees, representatives, officers, agents, advisers or affiliates in connection with its investigation of the accuracy of the information contained in this Offering Circular or its investment decision. In making an investment decision, each prospective investor must rely on its own examination of the Issuer, the Guarantor and its subsidiaries (together, the "**Group**") and the terms of the Notes, including, without limitation, the merits and risks involved. Each person receiving this Offering Circular is advised to read and understand the contents of this Offering Circular, including the financial statements and the related notes thereto, before investing in the Notes. The information contained in this Offering Circular has been provided and relied on other identified sources. The Arrangers, the Dealers, the Trustee, the Agents, any person who controls any of them and any of their respective directors, employees, representatives, officers, agents, advisers or affiliates have not independently verified any of the information contained in this Offering Circular and they make no representation or warranty, express or implied, as to the accuracy, sufficiency or completeness of such information, and you should not rely on anything contained in this Offering Circular as a promise or representation by the Arrangers, the Dealers, the Trustee, the Agents, any person who controls any of them or any of their respective directors, employees, representatives, officers, agents, advisers or affiliates. To the fullest extent permitted by law, none of the Arrangers, the Dealers, the Trustee, the Agents, any person who controls any of them or any of their respective directors, employees, representatives, officers, agents, advisers or affiliates accept any responsibility or liability in relation to information contained in this Offering Circular, statement made or purported to be made by any of the Arrangers, the Dealers, the Trustee, the Agents, any person who controls any of them or any of their respective directors, employees, representatives, officers, agents, advisers or affiliates or on its behalf or any other information in connection with the Issuer, the Guarantor, the Group, the Notes and the Guarantee. You should not reproduce or distribute this Offering Circular, in whole or in part, and should not disclose any contents or use any information in this Offering Circular for any purpose other than considering an investment in the Notes. None of the Arrangers, the Dealers, the Trustee, the Agents, any person who controls any of them or any of their respective directors, employees, representatives, officers, agents, advisers or affiliates undertakes to review the financial condition or affairs of the Issuer, the Guarantor or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Arrangers, the Dealers, the Trustee, the Agents, any person who controls any of them or any of their respective directors, employees, representatives, officers, agents, advisers or affiliates. By accepting delivery of this Offering Circular, you agree to these terms.

Each Series (as defined herein) of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by the Pricing Supplement specific to such Series. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Series of Notes, must be read and construed together with the relevant Pricing Supplement.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the prospects or financial or trading position of the Issuer and the Guarantor since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Each prospective purchaser of the Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells the Notes or possesses or distributes this Offering Circular and must obtain any consents, approvals or permissions required for the purchase, offer or sale by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Guarantor, the Issuer, the Arrangers or the Dealers shall have any responsibility therefor. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Dealers or their affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the relevant Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

The Notes and the Guarantee have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable tranche of Notes of which such Notes are a part, except in either case in accordance with Regulation S under the Securities Act. Any Series of Notes may be subject to additional selling restrictions. Any additional restrictions on the sale of transfer of any Series of Notes will be specified in the applicable Pricing Supplement for such Notes.

MiFID II product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/

EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arrangers, the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

UK MiFIR product governance/target market — The Pricing Supplement in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR Product Governance Rules, any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS — If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore SFA Product Classification: In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of the Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

The maximum aggregate principal amount of the Notes outstanding at any one time under the Programme will not exceed US$500,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into United States dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement). The maximum aggregate principal amount of the Notes, which may be outstanding at any one time under the Programme, may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

Solely for your convenience, this Offering Circular contains translations of Hong Kong dollars into U.S. dollars at specified rates. Unless it is indicated otherwise, the translation of Hong Kong dollars into U.S. dollars has been made at the rate of US$1.00 to HK$7.7534, the noon buying rate in effect on 31 December 2020 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States (the "**Federal Reserve Board**"). Further information on exchange rates is set forth in "*Exchange Rate*" in this Offering Circular. You should not construe these translations as representations that any Hong Kong dollar amounts have been, could have been or could be converted into any U.S. dollar amounts, or vice versa, at the rates indicated or at any rates or at all. Any discrepancies in any table or elsewhere in this Offering Circular between totals and sums of amounts listed herein are due to rounding.

The financial statements of the Guarantor are prepared and presented in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**"), as issued by the Hong Kong institute of Certified Public Accountants, which differ in certain respects from accounting principles generally accepted in certain other countries.

The statistics and estimates set forth in this Offering Circular relating to the PRC and the industries in which the Group operates were taken or derived from various official or third party publications. None of the Issuer, the Guarantor, the Arrangers, the Dealers, the Trustee, the Agents, any person who controls any of them or any of their respective directors, employees, representatives, officers, agents, advisers or affiliates makes any representation as to the accuracy and reliability of such statistics and estimates, which may not be consistent with other information compiled within or outside the PRC. Due to possible inconsistent data collection and consolidation methods and other associated data collection difficulties, the statistics and estimates herein may be inaccurate and should not be unduly relied upon.

STABILISATION

IN CONNECTION WITH THE ISSUE OF ANY SERIES OF NOTES, ANY OF THE DEALERS APPOINTED AND ACTING IN ITS CAPACITY AS A STABILISATION MANAGER (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN THE PRICING SUPPLEMENT, MAY OVER-ALLOT THE NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AS A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY RELEVANT STABILISATION MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISATION MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

PRESENTATION OF INFORMATION

In this Offering Circular, where information has been presented in thousands, millions or billions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "**USD**", "**US$**" or "**U.S. dollars**" are to United States dollars; all references to "**BVI**" are to the British Virgin Islands; all references to "**HK$**" or "**Hong Kong dollars**" are to Hong Kong dollars; all references to "**pounds sterling**" or "**£**" are to the currency of the United Kingdom; all references to "**euro**" or "**€**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No. 974/98 of 3 May 1998 on the introduction of the euro as amended; all references to "**S$**" are to Singapore dollars; all references to "**yen**" are to Japanese yen; all references to "**Renminbi**", "**Chinese Yuan**" or "**RMB**" are to the currency of the PRC; all references to "**United States**", "**U.S.**" or "**US**" are to the United States of America; all references to "**China**", "**Mainland China**" or the "**PRC**" in this Offering Circular mean the People's Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; all references to "**PRC Government**" are to the government of the PRC; all references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China; all references to "**Macau**" are to the Macau Special Administrative Region of the People's Republic of China; all references to "**United Kingdom**" or "**UK**" are to the United Kingdom of Great Britain and Northern Ireland; and all references to "**EU**" are to the European Union.

The Group's financial information as of and for the years ended 31 December 2018, 2019 and 2020 have been derived from the Guarantor's audited consolidated financial statements as of and for the year ended 31 December 2020 (the "**2020 Audited Financial Statements**") and the Guarantor's audited consolidated financial statements as of and for the year ended 31 December 2019 (the "**2019 Audited Financial Statements**" and, together with the 2020 Audited Financial Statements, the "**Audited Financial Statements**"), which are included elsewhere in this Offering Circular. The Audited Financial Statements have been prepared and presented in accordance with HKFRS.

The Group has adopted HKFRS 16 (Leases) ("**HKFRS 16**") from 1 January 2019, but has not restated comparatives for the year ended 31 December 2018, as permitted under the specific transitional provisions in HKFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019. The impact of the adoption of HKFRS 16 are disclosed in Note 3 to the 2019 Audited Financial Statements. Therefore, the consolidated financial information of the Guarantor as of and for the year ended 31 December 2018 may not be directly comparable to the consolidated financial information of the Guarantor after 1 January 2019.

As disclosed in Note 5 to the 2020 Audited Financial Statements, during the years ended 31 December 2019 and 2020, the Group has considered the disclosures of interest income and proprietary trading income with reference to the Group's business and the accounting standard requirements. Accordingly, the 2019 comparative figures have been re-presented. There was no impact on total revenue and the profit before taxation for the corresponding year. The corresponding financial information for the year ended 31 December 2018 has not been re-presented and therefore, it may not be directly comparable to the consolidated financial information of the Group for the years ended 31 December 2019 and 2020. Investors must therefore exercise caution when making comparisons of consolidated financial figures of the Group and when evaluating the financial condition and results of operations of the Group. Investors should consult their own independent financial advisers for professional advice.

None of the Arrangers, the Trustee, the Dealers or the Agents or any of their respective affiliates, directors or advisors makes any representation or warranty, express or implied, regarding the sufficiency of such financial information of the Group for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Group's financial condition and results of operations.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with:

(i) each relevant Pricing Supplement;

(ii) all amendments and supplements from time to time to this Offering Circular; and

(iii) any annual audited financial statements of the Guarantor that are published subsequent to the date of this Offering Circular as amended and supplemented from time to time,

which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular.

Any statement contained in this Offering Circular or in a document incorporated by reference into this Offering Circular will be deemed to be modified or superseded for purposes of this Offering Circular to the extent that a statement contained in any such subsequent document modifies or supersedes that statement. Any statement that is modified or superseded in this manner will no longer be a part of this Offering Circular, except as modified or superseded.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available for inspection upon prior written request and proof of holding to the satisfaction during usual business hours (being 9:00 a.m. to 3:00 p.m. (Hong Kong time)) on any weekday (Saturdays, Sundays and public holidays excepted) at the specified office of the Trustee (as defined under "*Summary of the Programme*") set out at the end of this Offering Circular. In this Offering Circular, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

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FORWARD-LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. All statements other than statements of historical facts contained in this Offering Circular, including, without limitation, those regarding the Group's future financial position, its strategies, plans, objectives, goals, targets and future developments in the markets where the Group participates or is seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond the Group's control, which may cause its actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which it will operate in the future. Important factors that could cause the Group's actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- the Group's ability to successfully implement its business plans and strategies;
- future developments, trends and conditions in the industries and markets in which the Group operates;
- the Group's business prospects;
- the Group's capital expenditure plans;
- the actions and developments of the Group's competitors;
- the Group's financial condition and performance;
- capital market development;
- the Group's dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC, Hong Kong and other relevant jurisdictions and the rules, regulations and policies of the relevant, governmental authorities relating to all aspects of the Group's business;
- general political and economic conditions, including those related to Hong Kong and the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to Hong Kong and the PRC and the industries and markets in which the Group operates;
- various business opportunities that the Group may pursue;
- macroeconomic measures taken by the mainland Chinese and Hong Kong governments to manage economic growth;
- changes in the global economic conditions and material volatility in the global financial markets;
- volatility of the economies of Hong Kong and the mainland China; and
- the impact of COVID-19 on economic conditions.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in "*Risk Factors*" and elsewhere in this Offering Circular. The Group cautions you not to place undue reliance on these forward-looking statements, which reflect the Group's view only as of the date of this Offering Circular. The Group undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur. All forward-looking statements contained in this Offering Circular are qualified by reference to the cautionary statements set out in this section.

DEFINITIONS

In this Offering Circular, unless the context otherwise requires, the following terms and expressions have the meanings set forth below.

"BOCOM"	Bank of Communications Co., Ltd. (交通銀行股份有限公司)
"BOCOM (Hong Kong Branch)"	Bank of Communications Co., Ltd., Hong Kong Branch
"BOCOM Dingji Science and Technology Innovation Equity Investment Fund" .	BOCOM Dingji Science and Technology Innovation Equity Investment Fund (Shenzhen) Partnership Enterprise (Limited Partnership)* 交銀鼎吉科創股權投資基金(深圳)合夥企業(有限合夥), a limited partnership established under the laws of the PRC
"BOCOM Group"	BOCOM and its subsidiaries (excluding the Group)
"BOCOM Guo Xin Asset Management"	BOCOM Guo Xin Asset Management Company Limited* (交銀國信資產管理有限公司), a company established under the laws of the PRC with limited liability
"BOCOM International Asia"	BOCOM International (Asia) Limited, a company incorporated in Hong Kong with limited liability on 18 May 2007, a subsidiary of the Guarantor and a corporation licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"BOCOM International Asset Management"	BOCOM International Asset Management Limited, a company incorporated in Hong Kong with limited liability on 18 May 2007, a subsidiary of the Guarantor and a corporation licensed to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO
"BOCOM International Futures"	BOCOM International Futures Limited, a company incorporated in Hong Kong with limited liability on 15 January 2016, a subsidiary of BOCOM International Securities and an indirect subsidiary of the Guarantor
"BOCOM International Securities"	BOCOM International Securities Limited, a company incorporated in Hong Kong with limited liability on 18 May 2007, a subsidiary of the Guarantor and a corporation licensed to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO
"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 Guarantor
"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 Guarantor

"BOCOM Science and Technology Innovation Equity Investment Fund" .	BOCOM Science and Technology Innovation Equity Investment Fund (Shanghai) Partnership Enterprise (Limited Partnership)* 交銀科創股權投資基金(上海)合夥企業(有限合夥), a limited partnership established under the laws of the PRC
"CSDCC"	China Securities Depository and Clearing Corporation Limited (中國證券登記結算有限責任公司)
"Dong Feng BOCOM Yuan Jing Auto Industry Equity Investment Fund"	Dong Feng BOCOM Yuan Jing Auto Industry Equity Investment Fund (Wuhan) Partnership Enterprise (Limited Partnership)* (東風交銀轅憬汽車產業股權投資基金(武漢)合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
"Hainan BOCOM International"	Hainan BOCOM International Science and Technology Innovation Shengxing Equity Investment Partnership (Limited Partnership)* (海南交銀國際科創盛興股權投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Jiaxing Hengsheng Equity Investment Fund"	Jiaxing Hengsheng Equity Investment Fund Partnership Enterprise (Limited Partnership)* 嘉興恒升股權投資基金合夥企業(有限合夥), a limited partnership established under the laws of the PRC
"Nanjing BOCOM Suyan & SOHO"	Nanjing BOCOM Suyan & SOHO Equity Investment Partnership Enterprise (Limited Partnership)* (南京交銀蘇鹽蘇豪股權投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
"QDIE".	Qualified Domestic Investment Entity
"QFLP"	Qualified Foreign Limited Partnership
"Qingdao BOCOM Haikong"	Qingdao BOCOM Haikong Science and Technology Innovation Equity Investment Partnership Enterprise (Limited Partnership)* (青島交銀海控科創股權投資合夥企業(有限合夥)), a limited partnership established under the laws of the PRC
"REIT"	real estate investment trust, a type of security that invests in real estate through property or mortgages
"RQFII"	RMB Qualified Foreign Institutional Investor
"Shanghai-Hong Kong Stock Connect".	a securities trading and clearing links programme developed by the Stock Exchange, Shanghai Stock Exchange, HKSCC and CSDCC for the establishment of mutual market access between Hong Kong and Shanghai
"Shanghai Stock Exchange"	the Shanghai Stock Exchange (上海證券交易所)
"Share(s)"	ordinary share(s) in the capital of the Guarantor
"Shareholder(s)"	holder(s) of the Share(s)

"Shenzhen-Hong Kong Stock Connect"	a securities trading and clearing links programme developed by the Stock Exchange, Shenzhen Stock Exchange, HKSCC and CSDCC for the establishment of mutual market access between Hong Kong and Shenzhen
"Trading Link(s)"	the respective linkage(s) between the Stock Exchange and the Shanghai Stock Exchange and between the Stock Exchange and the Shenzhen Stock Exchange under which Hong Kong and overseas investors may trade certain eligible securities listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange through the relevant Stock Exchange's subsidiary, and under which investors in the PRC may trade certain eligible securities listed on the Stock Exchange through the relevant Shanghai Stock Exchange's or Shenzhen Stock Exchange's subsidiary

SUMMARY

This summary does not contain all the information that may be important to prospective investors in deciding whether or not to invest in the Notes. Prospective investors should read the entire Offering Circular, including the section entitled "Risk Factors" and the financial statements and related notes thereto, before making an investment decision.

THE ISSUER

The Issuer, incorporated in the British Virgin Islands on 11 May 2021 with company number 2062794, is a direct wholly-owned subsidiary of the Guarantor. The Issuer was established for the sole purpose of issuing notes under the Programme. The registered office of the Issuer is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

THE GROUP

The Guarantor is a well-established and the only integrated platform for securities and related financial services of BOCOM in Hong Kong, one of the state-owned joint stock commercial banks. Founded in 1998, the Guarantor was one of the earliest licensed securities firms with a PRC background in Hong Kong and is specialising in securities brokerage and margin financing, corporate finance and underwriting, asset management and investment, and investment and loans. The Guarantor successfully completed its initial public offering of its shares on the main board of the SEHK on 19 May 2017.

Leveraging BOCOM's long established client base in Hong Kong and the PRC, wide brand recognition and industry expertise, the Group has been able to seize cross-border business opportunities from the stock connect programs and take full advantage of its background as a securities firm within a banking group to provide one-stop financial services for global customers.

In 2019, the Group was assigned a long-term issuer default rating of "A" and a short-term issuer default rating of "F1" by Fitch Ratings ("**Fitch**") with a stable outlook, and a long-term issuer rating of "A3" and a short-term issuer rating of "Prime-2" by Moody's Investors Service ("**Moody's**") with also a stable outlook. In 2020, the Group was reaffirmed "A" and "A3" issuer ratings by Fitch and Moody's, two major international credit rating agencies, respectively, therefore continuing to hold the highest credit ratings among the Chinese securities firms in Hong Kong, which demonstrated the recognition of the Group's robust financial structure and development prospects by the capital market, clients and investors.

For the years ended 31 December 2018, 2019 and 2020, the Group's total revenue and other income was HK$1,484.3 million, HK$1,570.2 million and HK$2,194.8 million, respectively. For the same periods, the Group's profit attributable to its shareholders was HK$407.6 million, HK$500.6 million and HK$843.2 million, respectively. As of 31 December 2018, 2019 and 2020, the Group had total assets of HK$14,461.8 million, HK$18,730.2 million and HK$23,359.9 million, respectively, and total equity of HK$6,274.2 million, HK$6,627.8 million and HK$7,783.9 million, respectively.

The Group's business primarily comprises the following business segments:

- *Securities Brokerage and Margin Financing*: The Group engages in trading of stocks, funds, bonds and futures on behalf of its clients and earn commission and fee income. The Group also engages in margin financing and earn interest income.

- *Corporate Finance and Underwriting*: The Group provides IPO sponsorship and financial advisory, underwriting (equity and debt) and placing services. In return, the Group principally earns sponsor fees, financial advisory fees as well as underwriting and placing commission.

- *Asset Management and Advisory*: The Group provides asset management and advisory services, principally including mutual fund management, specialised asset management and private equity fund management, and earns management and performance fees. In addition, the Group provides investment advisory services in the PRC and Hong Kong, and generate investment advisory fees.

- *Investment and Loans*: The Group invests in equity and fixed income securities and other financial products for its own account to achieve investment income. The Group is also engaged in structured finance and loans business, including pre-IPO investment financing, financing relating to offshore M&As, privatisation, management buyout and other investment banking related businesses as well as provision of loans, which generates interest income. In addition, the Group invests in equity securities of private companies in return for dividend income and gains on disposal at exit.

COMPETITIVE STRENGTHS

The key competitive strengths of the Group are as follows:

- one-stop platform with comprehensive securities and financial services;

- strong support from the BOCOM Group;

- dedicated corporate finance and underwriting team with outstanding execution capabilities;

- strong and award-winning securities research team;

- fast growing asset management and advisory business;

- healthy leverage and diversified financing sources;

- prudent and comprehensive risk management and internal control; and

- experienced senior management and a strong professional team.

BUSINESS STRATEGIES

The Group strives to become a financial services institution with a comprehensive product and service portfolio that serves its clients globally and meets their various needs for securities and financial services. The Group's specific strategies include the following:

- continue to strengthen the Group's principal business lines and attract talented professionals;

- further develop the Group's "capital-based" businesses and M&A financial advisory business to increase synergies and cross-selling capabilities among the Group's business lines;

- enhance the Group's business platform and expand its business; and

- enhance the Group's risk management system, internal control and IT capabilities.

SELECTED FINANCIAL INFORMATION

*The summary consolidated financial information of the Group as of and for the years ended 31 December 2018, 2019 and 2020 are extracted from the Audited Financial Statements. The Audited Financial Statements were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("**PwC**"), the Guarantor's independent auditor, which are included elsewhere in this Offering Circular. The Audited Financial Statements have been prepared and presented in accordance with HKFRS.*

The Group has adopted HKFRS 16 from 1 January 2019, but has not restated comparatives for the year ended 31 December 2018, as permitted under the specific transitional provisions in HKFRS 16. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019. The impact of the adoption of HKFRS 16 are disclosed in Note 3 to the 2019 Audited Financial Statements. Therefore, the consolidated financial information of the Guarantor as of and for the year ended 31 December 2018 may not be directly comparable to the consolidated financial information of the Guarantor after 1 January 2019.

As disclosed in Note 5 to the 2020 Audited Financial Statements, during the years ended 31 December 2019 and 2020, the Group has considered the disclosures of interest income and proprietary trading income with reference to the Group's business and the accounting standard requirements. Accordingly, the 2019 comparative figures have been re-presented. There was no impact on total revenue and the profit before taxation for the corresponding year. The corresponding financial information for the year ended 31 December 2018 has not been re-presented and therefore, it may not be directly comparable to the consolidated financial information of the Group for the years ended 31 December 2019 and 2020. Investors must therefore exercise caution when making comparisons of consolidated financial figures of the Group and when evaluating the financial condition and results of operations of the Group. Investors should consult their own independent financial advisers for professional advice.

The summary consolidated financial statements as set forth below should be read in conjunction with, and is qualified in their entirety by reference to, the relevant consolidated financial statements of the Guarantor and the notes thereto included elsewhere in this Offering Circular. The Guarantor's historical consolidated financial statements should not be taken as an indication of its future financial performance.

Summary Consolidated Income Statement

	For the year ended 31 December		
	2018	**2019**	**2020**
	HK$'000 (Audited)	**HK$'000 (Audited)**	**HK$'000 (Audited)**
Revenue	1,397,862	1,417,007	2,075,852
Commission and fee income	—	*364,401*	*413,270*
Interest income	—	*545,152*	*675,079*
Proprietary trading income	—	*507,454*	*987,503*
Other income	86,397	153,235	118,943
Revenue and other income	**1,484,259**	**1,570,242**	**2,194,795**
Commission and brokerage expenses	(53,002)	(36,613)	(56,586)
Finance costs	(352,227)	(355,598)	(279,641)
Staff costs	(361,675)	(374,378)	(401,993)
Depreciation	(8,805)	(78,059)	(83,275)
Other operating expenses	(306,924)	(171,329)	(178,266)
Change in impairment allowance	20,778	(49,236)	(262,322)
Total expenses	**(1,061,855)**	**(1,065,213)**	**(1,262,083)**

	For the year ended 31 December		
	2018	2019	2020
	HK$'000	HK$'000	HK$'000
	(Audited)	(Audited)	(Audited)
Operating profit	422,404	505,029	932,712
Share of results of associates	(179)	26,571	(10,413)
Share of results of joint ventures	41	(91)	734
Gain on disposal of an associate	15,380	—	—
Profit before taxation	**437,646**	**531,509**	**923,033**
Income tax expense	(26,650)	(30,870)	(71,852)
Profit for the year	**410,996**	**500,639**	**851,181**
Attributable to:			
Shareholders of the Guarantor	407,605	500,567	843,155
Non-controlling interests	3,391	72	8,026
	410,996	**500,639**	**851,181**
Earnings per share attributable to shareholders of the Guarantor for the year — Basic/Diluted (in HKD per share)	**0.15**	**0.18**	**0.31**

Summary Consolidated Statement of Comprehensive Income

	For the year ended 31 December		
	2018	2019	2020
	HK$'000 (Audited)	HK$'000 (Audited)	HK$'000 (Audited)
Profit for the year	**410,996**	**500,639**	**851,181**
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss			
Changes in fair value of debt investments at fair value through other comprehensive income	(126,971)	(39,249)	97,152
Amounts reclassified to profit or loss upon disposal of debt investments at fair value through other comprehensive income	(1,092)	43	(22,473)
	(128,063)	(39,206)	74,679
Exchange differences on translation of foreign operations	(17,472)	(8,805)	97,901
	(145,535)	(48,011)	172,580
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of equity investments at fair value through other comprehensive income	(51,899)	24,157	41,346
Other comprehensive income/(loss), net of tax	**(197,434)**	**(23,854)**	**213,926**
Total comprehensive income	**213,562**	**476,785**	**1,065,107**
Attributable to:			
Shareholders of the Guarantor	210,171	477,077	1,025,092
Non-controlling interests	3,391	(292)	40,015
	213,562	**476,785**	**1,065,107**

Summary Consolidated Statement of Financial Position

	As of 31 December		
	2018	2019	2020
	HK$'000	HK$'000	HK$'000
	(Audited)	(Audited)	(Audited)
Assets			
Non-current Assets			
Property and equipment	32,129	34,054	37,338
Right-of-use assets	—	73,623	111,830
Intangible assets	3,196	3,196	3,196
Interest in associates	212,553	393,964	211,159
Interest in joint ventures	2,915	33,274	124,320
Other assets	22,867	24,710	41,172
Financial assets at fair value through other comprehensive income	2,503,218	3,172,930	2,488,616
Loans and advances	156,136	1,509,172	1,095,098
Receivable from reverse repurchase agreements	437,511	224,987	—
Deferred tax assets	18,685	10,758	10,876
Total non-current assets	**3,389,210**	**5,480,668**	**4,123,605**
Current Assets			
Loans and advances	1,269,215	817,323	1,708,665
Tax recoverable	10,987	—	2,295
Accounts receivable	641,190	511,929	1,108,083
Other receivables and prepayments	300,999	346,462	446,139
Margin loans to customers	3,918,371	2,679,240	2,799,125
Receivable from reverse repurchase agreements	187,670	379,596	237,350
Amount due from a fellow subsidiary	—	—	5,857
Amount due from an associate	—	547	—
Amounts due from related parties	3,242	1,937	1,269
Financial assets at fair value through other comprehensive income	—	1,457,609	492,641
Financial assets at fair value through profit or loss	4,141,644	6,507,553	10,405,548
Derivative financial assets	5,306	2,224	24,367
Cash and bank balances	594,005	545,141	2,004,915
Total current assets	**11,072,629**	**13,249,561**	**19,236,254**
Total assets	**14,461,839**	**18,730,229**	**23,359,859**
Equity and liabilities			
Equity attributable to shareholders of the Guarantor			
Share capital	3,942,216	3,942,216	3,942,216
Retained earnings	2,520,038	2,778,837	3,419,833
Revaluation reserve	(170,708)	(167,158)	(95,069)
Foreign currency translation reserve	(17,472)	(25,913)	39,999
Total equity attributable to shareholders of the Guarantor	**6,274,074**	**6,527,982**	**7,306,979**
Non-controlling interests	134	99,828	476,959
Total equity	**6,274,208**	**6,627,810**	**7,783,938**

	As of 31 December		
	2018	2019	2020
	HK$'000	HK$'000	HK$'000
	(Audited)	(Audited)	(Audited)
Liabilities			
Non-current Liabilities			
Borrowings	4,988,200	4,964,230	—
Subordinated loans from the ultimate holding company	1,000,000	1,000,000	1,000,000
Obligation under repurchase agreements	478,146	248,915	313,835
Lease liabilities	—	25,019	56,438
Deferred tax liabilities	—	—	45,789
Total non-current liabilities	**6,466,346**	**6,238,164**	**1,416,062**
Current Liabilities			
Borrowings	763,630	3,216,467	8,633,885
Obligation under repurchase agreements	193,936	1,222,714	3,755,772
Tax payable	36,026	11,388	13,337
Provision for staff costs	78,516	101,524	176,850
Other payables and accrued expenses	94,367	67,213	128,621
Accounts payable	496,605	405,443	612,645
Contract liabilities	18,128	55,479	51,431
Lease liabilities	—	51,700	56,169
Amount due to the ultimate holding company	3,745	5,459	33,759
Amount due to a fellow subsidiary	83	55	—
Financial liabilities at fair value through profit or loss	30,960	723,871	663,255
Derivative financial liabilities	5,289	2,942	34,135
Total current liabilities	**1,721,285**	**5,864,255**	**14,159,859**
Total liabilities	**8,187,631**	**12,102,419**	**15,575,921**
Total equity and liabilities	**14,461,839**	**18,730,229**	**23,359,859**
Net current assets	**9,351,344**	**7,385,306**	**5,076,395**
Total assets less current liabilities	**12,740,554**	**12,865,974**	**9,200,000**

Summary Consolidated Statement of Cash Flows

	For the year ended 31 December		
	2018	**2019**	**2020**
	HK$'000	**HK$'000**	**HK$'000**
	(Audited)	**(Audited)**	**(Audited)**
Operating activities			
Profit before taxation	437,646	531,509	923,033
Adjustments for:			
Dividend income	(139,083)	(110,111)	(93,178)
Interest income from loans or clients	(502,933)	(362,442)	(412,850)
Interest income from financial assets at fair value through other comprehensive income	(198,273)	(182,710)	(262,229)
Bank and other interest income	(36,675)	(47,170)	(28,279)
Finance costs	352,227	355,598	279,641
Depreciation	8,805	78,059	83,275
Loss on disposal of property and equipment	781	3	36
Change in impairment allowance	(20,778)	49,236	262,322
Net gain on financial assets and liabilities at fair value through profit or loss	(4,378)	(276,068)	(813,515)
Net loss on derivative financial assets and liabilities	—	1,771	7,915
Net (gain)/loss on debt investments at fair value through other comprehensive income	(1,092)	43	(22,473)
Foreign exchange gain	(7,264)	(49,987)	(22,545)
Share of results of associates	179	(26,571)	10,413
Share of results of joint ventures	(41)	91	(734)
Gain on disposal of an associate	(15,380)	—	—
Operating cash flows before movements in working capital	**(126,259)**	**(38,749)**	**(89,168)**

	For the year ended 31 December		
	2018	2019	2020
	HK$'000	HK$'000	HK$'000
	(Audited)	(Audited)	(Audited)
Decrease/(increase) in other assets	19,175	(1,841)	(16,462)
Increase in financial assets at fair value through profit or loss	(405,599)	(2,300,941)	(2,949,550)
(Decrease)/increase in financial liabilities at fair value through profit or loss	12,102	692,911	(203,254)
Decrease/(increase) in derivative financial assets	(4,475)	3,082	1,710
(Decrease)/increase in derivative financial liabilities	4,486	(2,346)	(575)
(Increase)/decrease in accounts receivable	(81,905)	128,909	(592,785)
(Increase)/decrease in margin loans to customers	2,435,779	1,234,117	(154,816)
(Increase)/decrease in loans and advances	50,507	(906,640)	(470,693)
Decrease/(increase) in receivable from reverse repurchase agreements	(625,214)	20,631	367,227
Decrease in amounts due from related parties	150	1,302	671
Decrease/(increase) in amounts due from an associate	—	(547)	547
Increase/(decrease) in amount due to a fellow subsidiary	83	(28)	(55)
Increase in amount due from a fellow subsidiary	—	—	(5,857)
(Increase)/decrease in other receivables and prepayments	(79,594)	62,243	(44,652)
Increase/(decrease) in accounts payable	105,937	(91,162)	207,202
Increase/(decrease) in amount due to the ultimate holding company	(2,335)	1,713	28,300
Increase in provision for staff costs	24,806	23,008	75,326
(Decrease)/increase in other payables and accrued expenses	64,174	(27,153)	(87,787)
Decrease in deferred revenue	(25,788)	—	—
(Decrease)/increase in contract liabilities	18,128	37,350	(4,048)
Net cash generated from/(used in) operations	1,384,158	**1,164,141)**	**(3,938,719)**
Income tax paid	(1,541)	(36,940)	(25,700)
Interest received from loans or clients	502,287	348,506	420,132
Bank and other interest income received	34,509	48,735	29,690
Interest expenses paid	(408,427)	(352,386)	(291,956)
Net cash generated from/(used in) operating activities	**1,510,986**	**(1,156,226)**	**(3,806,553)**

	For the year ended 31 December		
	2018	2019	2020
	HK$'000	HK$'000	HK$'000
	(Audited)	(Audited)	(Audited)
Investing activities			
Dividend received	139,083	110,111	93,178
Bond interest income received	199,841	294,855	524,781
Purchase of property and equipment	(20,896)	(13,664)	(21,931)
Proceeds on disposal of an associate	111,671	—	—
Step acquisition of a subsidiary	—	—	23,293
Purchase of associates	(213,400)	(158,664)	(55)
Distribution from associates	7,091	—	86
Capital injection to joint ventures	—	(31,703)	(86,497)
Distribution from joint ventures	—	1,694	15
Purchase of financial assets at fair value through other comprehensive income	(341,413)	(2,910,823)	(1,170,967)
Proceeds on disposal of financial assets at fair value through other comprehensive income	1,213,454	708,899	2,735,430
(Decrease)/increase in time deposit with original maturity of more than three months	(27)	(29)	62
Increase in restricted cash	(2,990)	—	—
Net cash generated from/(used in) investing activities	**1,092,414**	**(1,999,324)**	**2,097,395**
Financing activities			
Net (repayment)/drawdown of bank	(3,021,330)	3,228,414	3,091,316
Capital contribution by non-controlling interests	—	100,119	337,116
Dividends paid to shareholders	(218,751)	(218,751)	(246,095)
Dividends from subsidiaries paid to non-controlling interests	(7,334)	(133)	—
Principal elements of lease payments	—	(69,671)	(73,926)
Net cash (used in)/generated from financing activities	**(3,247,415)**	**3,039,978**	**3,108,411**
Net (decrease)/increase in cash and cash equivalents	**(644,015)**	**(115,572)**	**1,399,253**
Cash and cash equivalents at 1 January	**1,245,628**	**589,348**	**540,455**
Effect of exchange rate changes on cash and cash equivalents	(12,265)	66,679	60,583
Cash and cash equivalents at 31 December	**589,348**	**540,455**	**2,000,291**

SUMMARY OF THE PROGRAMME

The following summary does not purport to be complete and is taken from and is qualified in its entirety by, the remainder of this Offering Circular and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Pricing Supplement. Words and expressions defined in "*Terms and Conditions of the Notes*" shall have the same meanings in this summary.

Under the Programme, the Issuer may, from time to time, issue the Notes denominated in U.S. dollars, Euros or in any other currency, subject to the terms more fully set forth herein. A summary of the terms and conditions of the Programme and the Notes appears below (the "**Terms and Conditions of the Notes**"). The applicable terms of any Notes will be agreed upon by and between the Issuer and the relevant Dealer(s) prior to the issue of the Notes and will be set forth in the Terms and Conditions of the Notes endorsed on, or incorporated by reference into, the Notes, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Notes, as more fully described under "*Summary of the Provisions of the Notes while in Global Form*" below.

Issuer	BOCOM International Blossom Limited
Guarantor	BOCOM International Holdings Company Limited
Arrangers and Dealers . . .	BOCOM International Securities Limited and Bank of Communications Co., Ltd. Hong Kong Branch
Trustee	Bank of Communications Trustee Limited
Issuing and Paying Agent .	Bank of Communications Co., Ltd. Hong Kong Branch
Transfer Agent and Registrar.	Bank of Communications Co., Ltd. Hong Kong Branch
CMU Lodging and Paying Agent	Bank of Communications Co., Ltd. Hong Kong Branch
Programme Size	Up to US$500,000,000 (or the equivalent in any other currency at the date of issue (the "**Programme Limit**")) aggregate nominal amount of the Notes outstanding at any one time. The Issuer and the Guarantor may increase the amount of the Programme Limit in accordance with the terms of the Dealer Agreement.
Certain Restrictions.	Each issue of the Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see *"Subscription and Sale"*)
Notes having a maturity of less than one year.	The Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 (the "**FSMA**") unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent, see *"Subscription and Sale"*.

Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each, a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest, the NDRC Post-issuance Filing and/or the Issue Price), the Notes of each Series being intended to be fungible with all other Notes of that Series. Each Series may be issued in tranches (each, a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest, the NDRC Post-issuance Filing and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be specified in the relevant Pricing Supplement.
Issue Price	The Notes may be issued at their nominal amount or at a discount or premium to their nominal amount. Partly Paid Notes may be issued, the issue price of which will be payable in two or more instalments.
Form of the Notes	The Notes will be issued in bearer or registered form as described in the Terms and Conditions of the Notes. Bearer Notes will not be exchangeable for Registered Notes, and Registered Notes will not be exchangeable for Bearer Notes, and vice versa. A Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Pricing Supplement. A Tranche of Registered Notes will initially be represented by a Global Certificate. Where TEFRA D (as defined below) is applicable, Bearer Notes must initially be issued in the form of a Temporary Global Note, exchangeable for Permanent Global Notes or Definitive Notes upon certification of non-U.S. beneficial ownership.
Clearing Systems.	Euroclear, Clearstream, the CMU and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Trustee and the relevant Dealer.
Initial Delivery of the Notes	On or before the issue date for a Tranche, a Global Note or Global Certificate representing the Notes may be deposited with a common depositary for Euroclear and Clearstream or deposited with a sub-custodian for the CMU. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Principal Paying Agent and the relevant Dealer(s). Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of nominees or a common nominee for, such clearing systems.
Currencies	Subject to compliance with all relevant laws, regulations and directives, the Notes may be issued in any currency agreed between the Issuer, the Guarantor, the relevant Dealer(s) and the Principal Paying Agent.

Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Guarantor, the relevant Dealer(s) and the Principal Paying Agent.
Specified Denomination . .	The Notes will be in such denominations as may be agreed between the Issuer, the Guarantor and the relevant Dealer(s) save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the central banks (or equivalent body) or any laws or regulations applicable to the relevant currency (see "*Certain Restrictions*" above).
Fixed Rate Notes	Fixed interest will be payable in arrears on the date or dates in each year specified in the relevant Pricing Supplement.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as set out in the Terms and Conditions of the Notes and the relevant Pricing Supplement.
Benchmark Event (other than Floating Rate Notes which specify the Reference Rate as SOFR)	If the Issuer or its designee determines that a Benchmark Event has occurred in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) as specified in the relevant Pricing Supplement remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with the Conditions and, in either case, an Adjustment Spread if any, and any Benchmark Amendments in accordance with the Conditions). See *"Terms and Conditions of the Notes — Interest and Other Calculations — Interest on Floating Rate Notes and Index Linked Interest Notes — Rate of Interest for Floating Rate Notes — Benchmark Event (other than Floating Rate Notes which specify the Reference Rate as SOFR)"*.
Benchmark Event (SOFR)	If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the-then current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates. See *"Terms and Conditions of the Notes — Interest and Other Calculations — Interest on Floating Rate Notes and Index Linked Interest Notes — Rate of Interest for Floating Rate Notes — Benchmark Event (SOFR)"*.
Zero Coupon Notes	Zero Coupon Notes may be issued at their nominal amount or at a discount to them and will not bear interest.
Dual Currency Notes	Payments in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange as may be specified in the relevant Pricing Supplement.
Index Linked Notes	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula as may be specified in the relevant Pricing Supplement.

Interest Periods and Interest Rates . . . . The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. The Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the relevant Pricing Supplement.

Redemption . . . . The relevant Pricing Supplement will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following a Change of Control or an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer. The applicable Pricing Supplement may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Pricing Supplement. The Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain Restrictions — Notes having a maturity of less than one year*" above.

Redemption by Instalments . . . . The Pricing Supplement issued in respect of each issue of the Notes that are redeemable in two or more instalments will set out the dates on which, and the amounts in which, such Notes may be redeemed.

Optional Redemption . . . . The Pricing Supplement issued in respect of each issue of the Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, and if so the terms applicable to such redemption. See "*Terms and Conditions of the Notes — Redemption, Purchase and Options — Redemption at the Option of the Issuer*." and "*Terms and Conditions of the Notes — Redemption, Purchase and Options — Redemption at the Option of Noteholders*".

Redemption upon a Change of Control . . . . Unless previously redeemed under Condition 6 (*Redemption, Purchase and Options*) of the Terms and Conditions of the Notes, upon a Change of Control, the Issuer will be required to make an offer to redeem all of the Notes at a price in cash equal to the 101 per cent. of the principal amount of the Notes repurchased, plus accrued and unpaid interest (if any) on the principal amount of the Notes being repurchased to but excluding the date of repurchase. See "*Terms and Conditions of the Notes — Redemption, Purchase and Options — Redemption upon a Change of Control*".

Redemption for Taxation Reasons . . . . The Notes may be redeemed at the option of the Issuer in whole, but not in part, upon notice as described in the Terms and Conditions of the Notes, at their Early Redemption Amount (together with interest accrued (if any) to the date fixed for redemption and Additional Amounts, in the event the Issuer or, as the case may be, the Guarantor becomes obligated to pay Additional Amounts in respect of the Notes of that series or, the Guarantee as a result of certain changes in tax law. See *"Terms and Conditions of the Notes — Redemption, Purchase and Options — Redemption for Taxation Reasons"*.

Trust Deed . . . . The Issuer, the Guarantor and the Trustee had entered into a trust teed on 4 June 2021 for each Series of the Notes (as amended and supplemented from time to time, the "**Trust Deed**").

Taxation . . . . All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee will be made free and clear of, and without withholding or deduction for, or on account of, any Taxes imposed, levied, collected, withheld or assessed by or within the Relevant Taxing Jurisdiction, unless required by law to be withheld or deducted.

If the Issuer or, as the case may be, the Guarantor, is required to make such a deduction or withholding, the Issuer or, as the case may be, the Guarantor shall pay such Additional Amounts as will result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no deduction or withholding been required, save in certain limited circumstances provided in Condition 8 of the Terms and Conditions of the Notes. See *"Terms and Conditions of the Notes — Taxation"*.

Status of Notes . . . . The Notes and the Receipts and the Coupons relating to them will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer, and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under such Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a) of the Terms and Conditions of the Notes, at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.

Status of the Guarantee . . The Guarantee will constitute the Guarantor's direct, unconditional, unsubordinated and (subject to Condition 4(a) of the Terms and Conditions of the Notes) unsecured obligations, and shall at all times rank at least *pari passu* with all of the Guarantor's other present and future unconditional, unsubordinated and unsecured obligations, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

Negative Pledge	So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer and the Guarantor will not, and the Guarantor will procure that none of its Material Subsidiaries will, create or permit to subsist any Security upon the whole or any part of its business, undertaking, properties, assets or revenues (including any uncalled capital), present or future, to secure the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness, or any guarantee of or indemnity given in respect of the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes or, as the case may be, the Guarantor's obligations under the Guarantee (i) are secured by the Security equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement (whether or not it includes the giving of a Security) as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).
Limitation on the Issuer's Activities.	For so long as the Notes are outstanding, the Issuer will not, and the Guarantor undertakes to use all its reasonable endeavours to procure that the Issuer will not, conduct business or any other activities other than (A) the offering, sale or issuance of any debt securities (including the Notes and any further securities issued in accordance with Condition 15 of the Terms and Conditions of the Notes), (B) entry into any other indebtedness, (C) the lending of the proceeds thereof to the Guarantor or a company controlled by the Guarantor, directly or indirectly, (D) the maintenance of the Issuer's corporate existence, and (E) any other activities in connection therewith.
Events of Default	Certain events of default will permit acceleration of the principal of the Notes (together with all interest and additional amounts accrued and unpaid thereon), as further described in Condition 10 of the Terms and Conditions of the Notes. See *"Terms and Conditions of the Notes — Events of Default"*.
Ratings	Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering materials in the United States, Hong Kong, Japan, PRC, Singapore, the EEA, the United Kingdom, Macau, Taiwan and British Virgin Islands, see "*Subscription and Sale*".
United States Selling Restrictions	Regulation S, Category 1 or 2 as specified in the applicable Pricing Supplement. TEFRA C, TEFRA D or TEFRA not applicable, as specified in the applicable Pricing Supplement. "TEFRA not applicable" is only available for (i) Registered Notes or (ii) Bearer Notes with a term of 365 days or less (taking into account any unilateral rights to extend or rollover the term).

Listing	Application has been made to the Stock Exchange for the Listing of the Programme by way of debt issues to Professional Investors only during the 12 months period after the date of this Offering Circular. There is no assurance that the application to the Stock Exchange for the listing of the Programme will be approved. The Notes may also be listed on the Stock Exchange or other or further stock exchange(s) as may be agreed between the Issuer, the Guarantor and the relevant Dealer in relation to each Series. Unlisted Notes may also be issued under the Programme. The relevant Pricing Supplement will state whether or not the Notes of a Series will be listed on any exchange(s) and, if so, on which exchange(s) the Notes are to be listed.
Governing Law	The Trust Deed, the Notes, the Receipts, the Coupons and the Talons, the Agency Agreement and the Guarantee will be governed by, and construed in accordance with, English law.
Legal Entity Identifier of the Issuer	2138009XYMCVIMXQ9W78

RISK FACTORS

Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the businesses of the Guarantor and the industries in which the Guarantor operates together with all other information contained in this Offering Circular, including, in particular, the risk factors described below. Words and expressions defined in the "Terms and Conditions of the Notes" or elsewhere in this Offering Circular have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the Notes and should be used as guidance only. Additional risks and uncertainties relating to the Guarantor that are not currently known to the Issuer or the Guarantor or that they currently deem immaterial, may individually or cumulatively also have a material adverse effect on the businesses, prospects, results of operations and/or financial position of the Guarantor and, if any such risk should occur, the price of the Notes may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Notes is suitable for them in light of the information in this Offering Circular and their personal circumstances.

RISKS RELATING TO THE GROUP'S BUSINESSES AND INDUSTRY

Uncertainties and instability in general economic, political and global market conditions could adversely affect the Group's business, financial condition and results of operations.

Substantially all of the Group's revenue is derived from the securities markets. The Group's business is directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in trading volume, funding availability or investors' confidence in the securities markets. The Group's business is also subject to general economic, political and global market conditions, which are influenced by factors such as macroeconomic and monetary policies, legislation and regulations affecting the financial and securities industries, trends in the business and financial sectors, inflation or deflation, currency fluctuations, accessibility to financing and the levels of interest rates. The Group has been, and in the future will continue to be, materially affected by general economic, political and global market conditions, including factors such as the liquidity of the global financial markets, the level and volatility of debt and equity prices, interest rates, currency and commodities prices, investor sentiment, inflation, and the availability and cost of capital and credit.

While the International Monetary Fund expects global economic growth to be 5.5 per cent. in 2021, there are a number of uncertainties ahead. The escalating tensions between the PRC and the United States, including ongoing trade disputes and deterioration in diplomatic relations, have contributed to increased market volatility, weakened consumer confidence and diminished expectations for economic growth around the world. Some of these tensions have manifested themselves through actions taken and sanctions imposed by the governments of the United States and the PRC in 2020 and early 2021. Heightened geopolitical tensions between the United States and the PRC continue to cause significant uncertainty in the global macroeconomy, which may in turn adversely affect the Group's business, financial condition and results of operations.

The outbreak of the coronavirus disease 2019 ("**COVID-19**") and its spread worldwide have introduced and are expected to continue to introduce uncertainty and volatility in global markets, and the future effects of the pandemic remain uncertain. The COVID-19 pandemic necessitated that governments respond at unprecedented levels to protect public health, local economies and livelihoods. It has affected regions at different times and varying degrees as it has developed. The varying government support measures and restrictions imposed in response to the COVID-19 pandemic have added challenges, given the rapid pace of change and significant operational demands. There remains a risk of subsequent waves of infection, as evidenced by the recently emerged variants of the virus. Renewed outbreaks emphasise the ongoing threat of COVID-19 even in countries that have recorded lower than average cases so far.

Government restrictions imposed around the world to limit the spread of COVID-19 have resulted in a sharp contraction in global economic activity. In 2020, governments also took steps designed to soften the extent of the damage to investment, trade and labour markets. Economic activity recovered unevenly in the second half of 2020 as some jurisdictions imposed renewed restrictions in the fourth quarter in response to a resurgence in COVID-19 cases. While a number of vaccine candidates have announced high efficacy rates, raising hopes of widespread immunisation from COVID-19 being achieved by the end of 2021 and government restrictions being eased, the rollout of vaccination programmes could be uneven across markets, hampering the global pace of recovery even as certain individual markets return to pre-pandemic levels of activity.

There is a material risk of a renewed drop in economic activity. The economic fallout from the COVID-19 pandemic caused increasing inequality across markets that have already suffered from social unrest. This leaves the burden on governments and central banks to maintain or increase fiscal and monetary stimulus. After financial markets suffered a sharp fall in the early phases of the spread of COVID-19, they rebounded but still remain volatile. Depending on the degree to which global economic growth suffers permanent losses, financial asset prices may suffer a further sharp fall. Depending on the time taken for economic activity to return to previous levels, there could be further adverse impacts on the Group's income due to lower lending and transaction volumes.

The Group is closely monitoring the evolvement of COVID-19 and in 2020 actively addressed the impact of COVID-19 by continuously improving the quality and efficacy of operation and development. See "*Description of the Group — Recent Developments*". However, there remains significant uncertainties in assessing the duration of the COVID-19 pandemic and its impact. A continued period of significantly reduced economic activity as a result of the impact of the COVID-19 pandemic could have a material adverse effect on the Group's financial condition, results of operations, prospects, liquidity, capital position and credit ratings.

Furthermore, global economic fluctuations have also had significant impacts on the global financial markets and on the Group. First, a rise in global trade protectionism will negatively impact the trade-dependent economies in Asia. Second, the interplay of U.S. fiscal and monetary policies, and aggressive quantitative easing programmes in Japan and Europe may lead to more volatile global capital flows, which could in turn impact global growth. Third, UK and EU signed the trade deal on the exit of the UK from the EU ("**Brexit**") on 30 December 2020 and the UK completed its separation from the EU with effect from 1 January 2021. While the UK and the EU had reached the trade deal, the effect of Brexit remains uncertain, and Brexit has and may continue to create negative economic impact and increase volatility in the global market. Fourth, financial market volatility and increased uncertainty may have a broader global economic impact that may in turn have a material adverse effect on the Group's business, financial condition and results of operations.

These developments, or the perception that any of them could occur, may adversely affect the stability of global financial markets, and may significantly reduce global market liquidity and restrict the ability of market participants to operate in certain financial markets. Any of these factors could depress economic activity and restrict the Group's access to capital, which could have a material adverse effect on the Group's business, financial condition and results of operations.

Unfavourable or uncertain economic and market conditions could adversely affect investor confidence, resulting in declines in securities trading and corporate finance and underwriting activities, which may adversely affect the commission and fee income from the Group's securities brokerage and corporate finance and underwriting businesses. Unfavourable financial or economic conditions and market volatility may also reduce the value of the Group's trading and investment positions in the equity and fixed income investment business and increase the risk of default of the Group's customers in its margin financing business. Under adverse financial or economic conditions, the Group may also experience a decline in the value of its asset management portfolio and may not be able to find suitable investments for its funds to effectively deploy capital, which could adversely affect the performance of the assets or funds the Group manages. This will, in turn, reduce the Group's management fee income, and harm its ability to raise new funds for its asset management and advisory business. Furthermore, periods of unfavourable or uncertain economic and market conditions could lead to reduced opportunities to exit, and declines in realised value from, the Group's direct equity investments, which may adversely affect its investment gains from such business. In addition, unstable political conditions may lead to adverse market conditions and increased volatility in the securities markets, which may adversely affect the Group's business as well. In particular, the Group's operational performance is highly correlated to the performance of the Hong Kong stock market.

If the Group is unable to compete effectively in the highly competitive financial services industry, the Group's business and prospects may be materially and adversely affected.

The Group operates in highly competitive markets, in particular the securities markets of Hong Kong, along with an increasingly large number of participants.

The Group faces intense competition in most of its business lines as described below:

- For the Group's securities brokerage and margin financing business, the Group competes primarily with other licensed securities firms in terms of brokerage commission rates, quality of service, range of products and services offered, margin loan interest rates, financing maturity, risk profile of collateral, flexibility in repayment and value-added services. The intense price competition in recent years has lowered commission rates for the Group's securities brokerage business.

- For the Group's corporate finance and underwriting business, the Group competes primarily with other Hong Kong securities firms in terms of brand recognition, service portfolio, marketing capabilities, quality of service and pricing. Intense competition may lead to lower underwriting and sponsor fees and financial advisory fees for the Group's corporate finance and underwriting business.

- For the Group's asset management and advisory business, the Group competes primarily with fund management and asset management companies in terms of portfolio performance, management fee rates, brand name and the ability to identify sound investment targets.

- For the Group's direct equity investment business, which is part of its investment and loans business, the Group competes primarily with other Hong Kong and PRC securities firms qualified to conduct direct investment business and private equity firms in Hong Kong and the PRC, in terms of pricing, strategy, terms offered and quality of service.

Some of the Group's competitors may possess certain competitive advantages over the Group, including greater financial resources, lower financing costs, stronger brand recognition, wider geographical coverage, more extensive client networks, higher risk tolerance and more advanced IT systems. They may also have more experience in a wider variety of services and offer more sophisticated financial products than the Group does. In addition, more competitors may seek to enter the market or expand their businesses. The Group may not always be able to compete successfully with the Group's competitors, which could materially and adversely affect the Group's business, financial condition and growth prospects.

The Group also faces intense competition to retain its existing clients and acquire new clients. Should the Group fail to successfully diversify its client base or maintain or improve its relationships with existing clients, the Group may not be able to generate the same or a higher level of income from its clients as before. Any significant decrease in the level of business with the Group's major clients, loss of any of its existing major clients or its inability to diversify or expand its client base could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group is subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may result in penalties, prohibitions on the Group's future business activities or suspension or revocation of its licences, and consequently may materially and adversely affect its business operations and prospects.

As a financial institution regulated under Hong Kong laws, the Group's business operations are subject to applicable Hong Kong laws and regulations, including, for example, the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time (the "**SFO**") and its subsidiary legislation, and the Listing Rules. These laws and regulations set out the licensing requirements, regulate the Group's operational activities and standards, and impose requirements such as maintaining minimum liquid capital along with other filing and reporting obligations relevant to its business operations. Failure to comply with applicable laws, regulations and regulatory requirements can result in investigations and regulatory actions, which may lead to penalties, including reprimands, fines, limitations or prohibitions on the Group's future business activities or suspension or revocation of its licences. Such outcomes may affect the Group's ability to conduct business, harm its reputation and, consequently, materially and adversely affect the Group's business, financial condition, operations and results.

From time to time, the Group's subsidiaries in Hong Kong which are SFC-licensed corporations may be required to assist in and/or are subject to inspections and/or investigations by relevant regulatory authorities in Hong Kong, such as the Securities and Futures Commission of Hong Kong (the "**SFC**"). As of the date of this Offering Circular, the Group is not aware of any regulatory investigations by the SFC. However, if the Group fails to comply with any regulatory requirements in the future, the Group and its employees may become the subject of inquiries or investigations by the relevant regulatory authorities. There remains a risk that on conclusion of such investigations, the SFC may identify misconduct or material non-compliance and decides to take regulatory actions, which might include, among other things, steps that can result in reprimands, fines and/or suspension or revocation of the licences of the relevant entities. If such an outcome were to arise, there may be a material and adverse effect on the Group's business, results of operations, financial condition and reputation.

Furthermore, the Group is subject to laws and regulations in other jurisdictions, as applicable. From time to time, the relevant laws, regulations and codes applicable to the Group may be supplemented, amended or repealed by regulatory authorities, which may increase its liquid capital requirements, restrict its existing business practices or future expansion, or result in additional compliance costs.

The Group's securities brokerage business is subject to various risks and there can be no assurance that the Group's brokerage commission and fee income can be sustained.

For the years ended 31 December 2018, 2019 and 2020, revenue and other income from the Group's securities brokerage business amounted to HK$186.3 million, HK$138.4 million and HK$197.8 million, respectively, representing 12.6%, 8.8% and 9.0% of the Group's total revenue and other income, respectively.

The Group's securities brokerage business is affected by external factors, such as general economic conditions, macroeconomic and monetary policies, market conditions and fluctuations in interest rates. Any sudden downturn in the global, regional or local economic environment, which is beyond the Group's control, may adversely affect the financial market sentiment in general. Severe fluctuations in the market sentiment may also lead to a prolonged period of sluggish market activity, which could, in turn, materially and adversely affect the Group's securities brokerage business.

Market competition is another key factor affecting this business. The Group monitors its product pricing in relation to that of the Group's competitors and adjusts commission rates and other fee structures to enhance its competitiveness. The brokerage commission rates and fees in the industry may decrease if more competitors seek to enter or expand their brokerage business. Furthermore, price competition and pricing pressure may continue as investors are increasingly less willing to pay for brokerage services, and some of the Group's competitors may seek to increase their market share by further reducing the brokerage commission rates and fees that they charge. The Group's brokerage commission and fee income could decline as a result, which could materially and adversely affect its business, financial condition and results of operations.

The Group may suffer significant losses from its credit risk exposures in its margin financing business.

For the years ended 31 December 2018, 2019 and 2020, revenue and other income from the Group's margin financing business amounted to HK$417.5 million, HK$228.6 million and HK$193.8 million, respectively, representing 28.1%, 14.6% and 8.8% of the Group's total revenue and other income, respectively.

The Group's margin financing business is subject to the risk that its clients may fail to meet their payment obligations. Any material non-payment by the Group's clients could adversely affect the Group's business, financial condition, results of operations and cash flow.

The Group may have to carry out forced liquidation of the collateral provided by its clients if their loan-to-value ratio is higher than the Group's minimum threshold due to fluctuations in market prices of the collateral while failing to restore the margin by providing additional collateral or selling part of their investment portfolio. Such forced liquidation may result in disputes between the Group's clients and the Group, which may subject the Group to litigation risks and significant costs.

Furthermore, the Group's ability to effectively carry out forced liquidation of its clients' positions is adversely affected by market volatility. If the market price of the underlying securities which the Group holds as collateral for the margin loans decreases significantly over an extended period, the Group may not be able to liquidate its clients' positions in a timely manner, and the value of such collateral may fall below the balance of its margin loans. As a result, the Group may suffer significant financial losses.

In addition, the Group is subject to customer concentration risks in its margin financing business. Should the Group's risk management measures fail to manage such risks, any material default of its top margin clients may adversely affect the results of operations and financial condition of the Group's margin financing business.

The Group's corporate finance and underwriting business is subject to various risks associated with IPO sponsorship and securities underwriting and placing, and there can be no assurance that the Group's underwriting or sponsor fees can be sustained.

For the years ended 31 December 2018, 2019 and 2020, segment revenue and other income from the Group's corporate finance and underwriting business amounted to HK$59.9 million, HK$120.1 million and HK$130.4 million, respectively, representing 4.0%, 7.6% and 5.9% of the Group's total revenue and other income, respectively.

The performance of the Group's corporate finance and underwriting business depends on market conditions. Adverse market conditions and capital market volatility may cause delays to, or the termination of, securities offerings sponsored, underwritten and placed by the Group, or may result in fewer financing activities in the market, which may, in turn, materially and adversely affect the Group's revenue from its corporate finance and underwriting business and further adversely affect the Group's overall business, financial condition and results of operations.

Moreover, the offering of securities in Hong Kong, especially an IPO, is subject to reviews conducted by SEHK and the SFC. The result and timing of these reviews are beyond the Group's control and may cause substantial delays to, or the termination of, securities offerings sponsored or underwritten by the Group. There can be no assurance that the relevant regulatory approvals for such securities offerings will be granted in a timely manner or at all. If a securities offering is not completed as scheduled or at all for any reason, the Group may not receive payment for its services in a timely manner, or at all, which could materially and adversely affect the Group's financial condition and results of operations. In addition, if the Group fails to sell the securities it underwrites or places, the Group would suffer reputational damage, as well as incur significant capital to purchase and hold the underwritten securities, thereby materially and adversely affecting the Group's business, financial condition and results of operations. Moreover, if the Group agrees to underwrite or places securities offerings on a hard underwriting basis, the Group would be required to purchase all of the unsubscribed portion of such securities offerings for its own account, which may materially and adversely affect the Group's liquidity, and may even incur losses.

When the Group acts as a sponsor in securities offerings, it may be subject to regulatory sanctions, fines, penalties or other disciplinary actions or other legal liability for conducting inadequate due diligence in connection with an offering, fraud or misconduct committed by the issuers, their agents, other sponsors or the Group, misstatements or omissions in disclosure documents, or other illegal or improper activities that occur during the course of the listing and underwriting process.

The Group's investment and loans business is subject to market volatility and its investment decisions.

For the years ended 31 December 2018, 2019 and 2020, segment revenue and other income from the Group's investment and loans business amounted to HK$690.9 million, HK$859.2 million and HK$1,501.6 million, respectively, representing 46.6%, 54.7% and 68.5% of the Group's total revenue and other income, respectively.

The Group invests in equity and fixed income securities for its own account, the performance of which is subject to market volatility and is affected by its investment decisions and judgements based on its assessment of the existing and future market conditions. If the Group's decision-making process fails to effectively minimise losses while capturing gains, or the Group's forecasts do not conform to actual changes in market conditions, its investment and loans business may not achieve the investment returns it has anticipated, and the Group may even suffer material losses. Any of the foregoing would materially and adversely affect its business, financial condition and results of operations.

The Group also provides loans to, or conducts direct equity investments in, companies with its own capital. The borrowers may default on the Group's loans for failure to meet their payment obligations due to changes in market conditions that result in a deterioration in their financial condition, which could adversely affect the Group's financial condition and results of operations. The Group may, from time to time, make provision for loans after taking into consideration the borrower's financial situation and operations as well as the seniority of the Group's claims among the creditors.

In addition, if the capital markets become volatile, the Group may be forced to sell its investments at unsatisfactory prices or defer sales for a considerable period of time, or may not be able to sell its investments at all. If the Group cannot sell its investments during the planned disposal period, the Group's investment returns will continue to be exposed to market risks. Furthermore, the Group has limited control over the companies in which it has invested for its direct equity investment business. The Group is subject to the risk that these companies may make business, financial or management decisions with which the Group does not agree. The majority shareholders or the management of such companies may take risks or otherwise act in a manner that does not serve the Group's interests as a minority shareholder. Moreover, these companies may fail to comply with the terms of their agreements with the Group, for which the Group may have limited or no recourse. If any of the foregoing were to occur, the value of the Group's direct equity investments could decrease or the Group may face investment failure, in which case the Group's financial condition, results of operations and cash flow could be materially and adversely affected.

Failure to meet the Group's customers' expectations on investment performance or a significant decline in the size of the Group's assets under management ("AUM") may materially and adversely affect its asset management and advisory business.

For the years ended 31 December 2018, 2019 and 2020, segment revenue and other income from the Group's asset management and advisory business was HK$82.0 million, HK$127.2 million and HK$106.2 million, respectively, representing 5.5%, 8.1% and 4.8% of the Group's total revenue and other income, respectively.

Investment performance affects the Group's AUM and is also one of the most important factors in retaining existing, and attracting new, clients and competing for new investment management business. Market volatility and limitations in investment options and hedging strategies in Hong Kong and the PRC could limit the Group's ability to provide stable returns for its clients and cause the Group to lose clients. In addition, the performance of the investment portfolio under the Group's asset management schemes is subject to market volatility and is affected by its investment decisions and judgements based on its assessment of the existing and future market conditions. Particularly, for those investment portfolios under the Group's asset management business with a guaranteed return feature, it may require the Group to have additional risk management measures. Furthermore, the Group's asset management and advisory business is subject to exchange rate risk due to the difference between the currency in which the Group's scheme is denominated and the currencies in which the underlying investments are denominated. Unfavourable exchange rate movements may adversely affect the AUM of the relevant schemes of the Group's asset management and advisory business. The Group may also not be able to keep or increase its AUM due to increased competition from other securities firms, fund managers, private equity investment funds, insurance companies, trust companies, banks and other competitors, which could adversely affect its results of operations and financial condition.

The Group is exposed to liquidity risk relating to its unlisted securities investments.

The Group may, from time to time, invest in unlisted securities, subject to its internal approval. Compared to listed securities, unlisted securities do not have a public market and may not be liquidated in a timely manner. In addition, unlisted securities do not have an available public market price for reference. If such unlisted securities cannot be liquidated on the terms and prices satisfactory to the Group, the Group's return on investments may be lower than originally expected. The Group may continue to invest in unlisted securities, which may negatively affect its liquidity position while the Group holds them.

The Group requires a high level of funding to support its business and may not maintain sufficient liquidity to meet such needs.

Maintaining adequate liquidity is crucial to the Group's business operations as the Group continues to expand its margin financing, corporate finance and underwriting, investment and loans as well as other business activities which require substantial cash. The Group's failure to maintain adequate liquidity may materially and adversely affect its business, financial condition and results of operations. A reduction in the Group's liquidity could also reduce the confidence of its clients or counterparties in the Group, which may lead to losses of business and clients.

Factors that may adversely affect the Group's liquidity position primarily include a significant increase in its margin financing activities, substantial investments in its investment and loans business and settlement of securities transactions on behalf of its securities brokerage clients using its own resources before clients settle using their own funds. In addition, the Group may need additional funding in order to, among other things, support its expansion, develop new or enhanced services and products, or acquire complementary businesses or technologies. When cash generated from the Group's operating activities is not sufficient to meet its liquidity or regulatory capital needs, the Group must seek external financing. However, there can be no assurance that such additional funding will be available when needed on commercially reasonable terms favourable to the Group, or at all, especially during periods of disruptions in the credit and capital markets where potential sources of external financing could be limited and the Group's borrowing costs could increase. The Group's inability to raise such funds may materially and adversely affect its growth prospects.

The Group's licensed entities must maintain a high level of liquidity at all times in compliance with the capital requirements or any relevant regulatory changes, as applicable, under the Securities and Futures (Financial Resources) Rules (Chapter 571N of the Laws of Hong Kong) (the "**FRR**"). If any of the Group's licensed entities fails to meet such requirements, the SFC may take disciplinary actions against it, which may materially and adversely affect the business, financial condition, results of operations and prospects of such entity and/or the Group. There can be no assurance that these existing regulatory requirements, together with any subsequent relevant changes, will be favourable to the Group's licensed entities and/or the Group in the future as well.

The Group had negative operating cash flows in 2019 and 2020 and may experience the same in the future.

The Group had negative cash flows from operating activities of approximately HK$1,156.2 million and HK$3,806.6 million in 2019 and 2020, respectively, primarily due to the increase in investment in financial assets at fair value through profit or loss. There can be no assurance that the Group will not record negative operating cash flows in the future. Factors such as changes in the Group's business operations or economic conditions could give rise to negative operating cash flows, which may materially and adversely affect its liquidity and financial condition. There can be no assurance that the Group will have sufficient cash from other sources to fund its operations should the foregoing occur, and the Group may not be able to obtain the necessary financing in due course on commercially reasonable terms favourable to the Group, or at all.

Significant interest rate fluctuations could affect the Group's financial condition and results of operations.

The Group's exposure to interest rate risk is primarily associated with its fixed income investments, interest income and interest expenses. The Group holds fixed income investments. During periods of rising interest rates, market prices and the Group's investment returns on fixed income securities will generally decrease.

The Group earns interest income from margin loans of its margin financing business and loans of its structured finance and loans business. Interest income from these sources is directly linked to the prevailing market interest rates. When interest rates decline, the Group's interest income would generally decrease. The Group makes interest payments on its loans and overdraft from financial institutions for financing its margin financing activities and daily operations. These interest expenses are directly linked to the prevailing market interest rates. When interest rates rise, the Group's interest expenses and financing costs would generally increase.

Interest rate volatility may also affect stock market performance and general market sentiment, which may indirectly and adversely impact on the Group's business performance.

The Group may not be able to successfully implement its business strategies.

The Group's future success depends on its ability to successfully implement its business strategies. There can be no assurance that the Group's business strategies will be successfully implemented. The Group's key business strategies include continuing to strengthen the Group's principal business lines and attracting talented professionals, further developing the Group's "capital-based" businesses and merger and acquisition ("**M&A**") financial advisory business to increase synergies and cross-selling capabilities among the Group's business lines, enhancing the Group's business platform and expanding its business, and enhancing the Group's risk management system, internal control and IT capabilities. Should the Group fail to implement its business strategies successfully or fail to manage its growth effectively, its business, financial condition, results of operations and prospects could be materially and adversely affected.

Implementing the Group's business strategies exposes the Group to various new and more challenging risks, including, but not limited to, the following:

- the Group may have insufficient experience or expertise in offering new products and services and dealing with new counterparties and customers and in providing the Group's customers with adequate levels of service for the Group's new products and services;
- the Group may be subject to greater and unfamiliar regulatory scrutiny, as well as increased credit, market and operational risks;
- the Group may be unable to hire additional qualified personnel to support the broader range of products and services the Group offers;
- the Group new products and services may not be accepted by the Group's customers or meet the Group's profitability expectations;
- the Group may be unable to obtain sufficient financing to support its business expansion; and
- the Group may not be successful in enhancing its risk management capabilities and IT systems in order to identify and mitigate risks associated with the Group's business strategies.

The Group's geographical expansions may not be successful.

As part of the Group's business strategies, the Group expects to further expand its global business which may expose the Group to additional risks, including, among other things:

- difficulties with managing operations into new geographical regions, including complying with the various regulatory and legal requirements of different jurisdictions;
- different approval or licensing requirements;
- challenges in providing products, services and support in these new markets;
- challenges in attracting clients and remaining competitive;
- potential adverse tax consequences;
- foreign exchange losses;
- limited protection for intellectual property rights;
- inability to effectively enforce contractual or legal rights; and
- local political, regulatory and economic instability (including the COVID-19 pandemic) or civil unrest.

If the Group is unable to effectively avoid or mitigate these risks, the Group's ability to expand its global business will be affected, which could have a material adverse effect on its business, financial condition, results of operations and prospects.

The Group may be subject to litigation, liability, regulatory actions and investigations and proceedings, and may not always be successful in defending itself against such claims or proceedings.

The Group's business operations entail substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, sales or underwriting practices, product design, fraud and misconduct, and control procedures deficiencies, as well as the protection of personal and confidential information of the Group's clients. The Group may be subject to arbitration claims and lawsuits in the ordinary course of its business. The Group may also be subject to inquiries, inspections, investigations and proceedings by regulatory and other governmental agencies.

In addition, various laws, regulations and rules require the Group to protect the personal data and confidential information of the Group's clients. The relevant authorities may issue sanctions or orders against the Group if it fails to protect the personal information of its clients, and the Group may have to pay damages for economic losses arising from its failure to protect the personal information of its clients in accordance with relevant laws and regulations. During the three years ended 31 December 2020 and up to the date of this Offering Circular, the Group did not experience any material failure in protecting the confidential information of its clients. Incidents of mishandling personal information or failure to protect the confidential information of the Group's clients could create a negative public or client perception of its operations or its brand name, which may materially and adversely affect its business, reputation and prospects.

Actions brought against the Group may result in settlements, injunctions, fines, penalties or other results adverse to the Group that could harm its reputation. Even if the Group is successful in defending itself against these actions, the costs of such defence may be significant to the Group. In market downturns, the number of legal claims and the amount of damages sought in legal proceedings may increase. A significant judgement or regulatory action against the Group or a material disruption in the Group's business arising from adverse adjudications in proceedings against the directors, officers or employees would have a material adverse effect on its liquidity, business, financial condition, results of operations and prospects.

Changes in tax laws and regulations may adversely affect the Group's business.

The Group's business operations are subject to the tax laws and regulations in Hong Kong, the PRC and other relevant jurisdictions. The Group may also be subject to taxation in other jurisdictions as the Group trades or invest in the financial products issued or provide services in such jurisdictions. Any unfavourable changes in the tax laws and regulations applicable to the Group may have an adverse effect on the Group's business, financial condition and results of operations.

The Group relies heavily on IT systems to process and record its transactions, offer online products and services and manage its daily operations.

The Group's automated IT systems are critical to its securities transactions, online services and daily operations in ensuring the proper processing of a large number of transactions across numerous and diverse markets and its broad range of products and services in a timely manner. A prolonged disruption to, or failure of, the Group's information processing or communications systems would limit its ability to process transactions. This would impair the Group's ability to serve its clients, execute transactions and affect its operations, which could, in turn, materially and adversely affect its competitiveness, financial condition and results of operations.

The proper functioning of the Group's financial control, risk management, accounting, customer service and other data processing systems is critical to its business and its ability to compete effectively. There can be no assurance that the Group's risk management measures would be sufficient in preventing its IT systems from failing in the future, and any such failure may materially disrupt its business operations and give rise to client complaints, litigation or adverse effects on its reputation.

In addition, the securities industry is characterised by rapidly changing technology. Online securities trading platforms and other new channels, such as mobile devices, are becoming increasingly popular among the Group's customers. The Group relies heavily on technology, particularly the Internet, to provide high quality online services. However, the Group's technology operations are exposed to various risks, such as system disruptions, information system instability and security breaches arising from human error, natural disasters, power failure, hacking, defects, computer viruses, spam attacks, unauthorised access and other similar events, many of which are beyond the Group's control. Disruptions to, or the instability of, the Group's technology or external technology that allows its clients to use its online products and services could materially harm the Group's business and reputation. For example, the Group may not be able to completely prevent loss or leakage of confidential data stored or transmitted in its IT systems due to unforeseeable security loopholes, such as hacking and viruses, or disruptions, such as hardware and software defects or operational error. Any loss or leakage of confidential data may incur economic loss or loss of clients, result in reputation damage, or even subject the Group to investigations by regulatory authorities. The Group is also vulnerable to cyber-attacks, which may severely damage its online trading operations, causing temporary or prolonged interruption or suspension of relevant services or leakage of confidential client data. The occurrence of any of the foregoing incidents may adversely affect its business, financial condition, results of operations and reputation.

The Group's operations depend on its key management and professional staff, and its business may suffer if the Group is unable to retain or replace them.

The success of the Group's business depends, to a large extent, on its ability to attract and retain key personnel who possess in-depth knowledge and understanding of the securities and financial markets. These key personnel include members of the Group's senior management, responsible officers and other professional staff. The Group devotes considerable resources to recruiting and retaining these personnel. However, the Group may not be able to recruit and retain these individuals as other securities firms and financial institutions are competing for the same pool of talent, and the failure to do so could materially and adversely affect the Group's business and prospects. In addition, intense competition may force the Group to offer higher compensation and other benefits in order to compete for high quality professionals, which could also materially and adversely affect the Group's financial condition and results of operations.

The Group's key employees are subject to non-competition arrangements. However, there can be no assurance that such arrangements can be fully and legally enforced. If any of the Group's senior management or other key personnel joins or establishes a competing business, the Group may lose some of its customers, which may have a material adverse effect on its business.

The Group's risk management policies and procedures and internal controls, as well as the risk management tools available to the Group, may not fully protect the Group against risks inherent in its business.

The Group continually improve its internal risk management framework and procedures to manage its risk exposures, primarily relating to credit, market, liquidity, operational, legal and compliance and reputational risks. The Group's risk management policies, procedures and internal controls may not be adequate or effective in capturing and mitigating material risk exposures in its business. In particular, some of the Group's methods of managing risks are based upon observed historical market behaviour and the Group's experience in the securities industry. These methods may fail to predict future risk exposures, which could be significantly greater than those indicated by the Group's historical measures. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up to date or properly evaluated. In addition, some of the information, experience and data that the Group relies on for the Group's risk management methods may quickly become outdated as markets and regulations continually evolve. Deficiencies in the Group's risk management and internal control systems and procedures may adversely affect the Group's ability to manage its risk exposure or identify any reporting errors and non-compliance with rules and regulations, which may further materially and adversely affect the Group's business, financial condition and results of operations.

The Group's business is susceptible to the operational failure of third parties.

The Group faces the risk of operational failure or termination of the services of any of the exchanges, depositaries, clearing agents, outsourcing contractors or other financial intermediaries the Group uses to facilitate its securities transactions. The Group is not subject to any material operational failure of such third parties during the three years ended 31 December 2020 and up to the date of this Offering Circular. However, any future operational failure or termination of the services of the particular financial intermediaries that the Group uses could adversely affect its ability to execute transactions, service its clients and manage its exposure to various risks, and thereby adversely affect its business and reputation.

The Group may not be able to detect and prevent fraud or other misconduct committed by its employees, representatives, agents, clients or other third parties.

The Group may be exposed to negligence, fraud or other misconduct committed by its employees, representatives, agents, clients or other third parties that could subject the Group to financial losses and sanctions imposed by governmental authorities, as well as adversely affect its reputation.

The Group's internal control procedures are designed to monitor its operations and ensure overall compliance. However, the Group's internal control procedures may be unable to identify all incidents of non-compliance or suspicious transactions in a timely manner or at all. Furthermore, it is not always possible to detect and prevent fraud and other misconduct, and the precautions the Group takes may not effectively prevent and detect such activities. There can be no assurance that negligence, fraud or other misconduct will not occur in the future. If such event does occur, it may cause negative publicity. The Group's failure to detect and prevent fraud and other misconduct may have a material adverse effect on the Group's business, financial condition, results of operations and reputation.

The Group may not be able to fully detect money laundering and other illegal or improper activities in the Group's business operations on a timely basis.

The Group is required to comply with applicable anti-money laundering and counter-terrorism laws and regulations in Hong Kong, the PRC and other relevant jurisdictions. These laws and regulations require financial institutions to establish sound internal control policies and procedures with respect to anti-money laundering monitoring and reporting activities. Such policies and procedures require the Group to, among other things, designate a compliance officer and a money laundering reporting officer, establish a customer due diligence system in accordance with relevant rules, record the details of customer activities and report suspicious transactions to the relevant authorities.

In addition, the policies and procedures the Group has adopted that are aimed at detecting and preventing the use of the Group's business platforms to facilitate money laundering and sanctioned activities as well as terrorist acts may not completely eliminate instances in which the Group may be used by other parties to engage in money laundering and other illegal, sanctioned or improper activities. In the event that the Group fails to fully comply with the applicable laws and regulations, the relevant government authorities may freeze the Group's assets or impose fines or other penalties on the Group. There can be no assurance that there will not be failures in detecting money laundering or other illegal or improper activities, which may adversely affect the Group's business, reputation, financial condition and results of operations.

Any failure to appropriately identify and address conflicts of interest could adversely affect the Group's business.

As the Group expands the scope of its business and its client base, it is critical for the Group to be able to address potential conflicts of interest, including situations where two or more interests within the Group's business legitimately exist but are in competition or conflict.

The Group has extensive internal control and risk management procedures that are designed to identify and address conflicts of interest. However, appropriately identifying and dealing with potential conflicts of interest is complex and difficult. The Group's failure to manage conflicts of interest could harm its reputation and erode client confidence in the Group. In addition, potential or perceived conflicts of interest may also give rise to litigation or regulatory actions. Any of the foregoing could adversely affect its business, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases (such as COVID-19) may materially and adversely affect the Group's business, financial condition and results of operations.

Any future occurrence of force majeure events, natural disasters or outbreaks of pandemics, epidemics and contagious diseases, including but not limited to the on-going COVID-19 outbreak caused by the SARS-CoV-2 virus, avian influenza, severe acute respiratory syndrome, swine influenza or Ebola virus, may materially and adversely affect the Group's business, financial condition and results of operations. In particular, the on-going COVID-19 outbreak has resulted in increased travel restrictions and extended delay or suspension of business activities in China and worldwide, which may result in adverse impact on the Group's businesses. There is no assurance that the outbreak will not lead to decreased demand for services the Group provides. See above "*Risk Factors — Uncertainties and instability in general economic, political and global market conditions could adversely affect the Group's business, financial condition and results of operations.*" for more details on the impact of the COVID-19 pandemic.

Moreover, the PRC has experienced natural disasters such as earthquakes, floods and droughts during the past few years. Any future occurrence of severe natural disasters in the PRC may materially and adversely affect its economy and therefore the Group's business. There can be no assurance that any future occurrence of natural disasters or outbreaks of epidemics and contagious diseases, or the measures taken by Hong Kong or the PRC government or other countries in response to such disasters or diseases, will not seriously disrupt the Group's operations or those of the Group's customers, therefore resulting in a material adverse effect on the Group's business, financial condition and results of operations.

In addition, acts of war and terrorism may cause damage or disruption to the Group or the Group's employees, facilities, the securities markets, or customers, any of which may materially and adversely affect the Group's financial condition and results of operations. Potential war or terrorist attacks may also cause uncertainty and impair the Group's business in ways that the Group cannot currently predict.

The Group may be indirectly affected by BOCOM's reputation.

BOCOM, the Group's ultimate controlling shareholder, is one of the major financial services providers in China. Its business scope encompasses commercial banking, securities services, trust services, financial leasing, fund management, insurance and offshore financial services. BOCOM has been listed on the Stock Exchange since June 2005, and on the Shanghai Stock Exchange since May 2007. Any negative publicity associated with BOCOM or any of its subsidiaries, funds, officers or employees may by association, as the Guarantor being one of its subsidiaries, result in a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

BOCOM may have interests or goals that are inconsistent with the interests of the Group which could cause it to direct the Group's business in a manner that is not in the best interests of other Shareholders.

BOCOM, as the ultimate controlling shareholder holding 73.14% shareholding interests in the Guarantor as of 31 December 2020, is able to direct the Guarantor's corporate policies and nominate directors of the Guarantor (the "**Directors**"). BOCOM may have economic or business interests or goals that are inconsistent with those of the Guarantor and/or those of the other Shareholders, and could take actions that could adversely affect the Group's business, financial condition and results of operations.

RISKS RELATING TO THE PRC AND HONG KONG

The Guarantor is subject to risks relating to the PRC's economic, political and social conditions, government policies, as well as the global economy.

The Guarantor's business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC.

The economy of the PRC differs from the economies of most developed countries in many respects, including, among others, the extent of government involvement, level of development, growth rate, and control of foreign exchange and allocation of resources. The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. The PRC government has in recent years implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises. However, the PRC government still retains significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated liabilities, setting monetary policy and providing preferential treatment to particular industries or enterprises.

The Guarantor's performance has been and will continue to be affected by China's economy, which in turn is influenced by the global economy. The global economic slowdown and the turmoil in the global financial markets that began in the second half of 2008, the continued weakness in the United States economy and the sovereign debt crisis in Europe have collectively added downward pressure to China's economic growth.

Any of the above factors may materially and adversely affect the Guarantor's business, financial condition and results of operations. The Guarantor is unable to accurately predict the precise nature of all the risks and uncertainties associated with the current economic, political, social and regulatory conditions, and many of these risks and uncertainties are beyond its control.

The financial industry in the PRC is highly regulated, and the Guarantor is subject to risks relating to changes in regulations or other governmental policies, including their interpretation and application.

The financial industry in the PRC is highly regulated. The Guarantor and some of its subsidiaries are subject to regulations on various perspectives, including, capital adequacy ratio, business licences, the scope of operations, the scope of investments, as well as the specific regulatory requirements for each financial sector, such as banking, insurance, securities and financial leasing, in which they operate. Thus the Guarantor's business and operations are also affected by changes in policies, laws, rules and regulations of the PRC relating to the financial industry, such as those affecting the extent to which the Guarantor can engage in specific businesses, as well as changes in other governmental policies.

In addition, pursuant to applicable laws and regulations in Hong Kong and the PRC, the Guarantor and its subsidiaries are required to obtain or renew approvals, permits and licences with respect to the Guarantor's relevant operations from the government. In order to obtain such qualifications, the Guarantor is required to fulfil requirements of regulatory authorities in various aspects. In case the Guarantor fails to fulfil such regulatory requirements continuously, its qualifications of operation may be revoked by regulatory authorities, or it may be denied renewing its qualification upon its expiration, or it may fail to obtain the relevant approvals for any new businesses as planned. There is no assurance that the Guarantor can obtain or renew all necessary approvals, permits and licences on a timely basis. Failure to obtain the relevant approvals could subject it to sanctions, fines, penalties, revocation of licence or other punitive actions, including suspension of the Guarantor's business operations or restriction or prohibition on certain business activities, which may result in failure to commence new businesses as scheduled or falling behind the Guarantor's competitors in such sectors.

As the PRC financial industry is undergoing significant changes, relevant laws and regulations may change from time to time based on the developments of the financial markets. Most of the emerging businesses require further development and improvement, and there are uncertainties regarding the enforcement of existing policies and regulations in relation to these new businesses. There is no assurance that the Guarantor will be able to adapt to all such changes on a timely basis. Any changes in regulatory requirements may have a material and adverse effect on the Guarantor's business, financial condition and results of operations. In addition, there may be uncertainties regarding the interpretation and application of new policies, laws, regulations or accounting standards. Failure to comply with the applicable policies, laws, rules, regulations or accounting standards may result in fines and restrictions on the Guarantor's business operations, which could also have a material and adverse impact on its business, financial condition and results of operations.

The Guarantor is subject to the risks from an economic downturn in Hong Kong.

The Guarantor's performance and the quality and growth of its assets are necessarily dependent on the overall economy in Hong Kong. As a result, any downturn in the Hong Kong economy may materially and adversely affect the Guarantor's business, financial condition and results of operations.

On 1 July 1997, sovereignty over Hong Kong was transferred from the United Kingdom to the PRC, and Hong Kong became a Special Administrative Region of the PRC. As provided in the Sino-British Joint Declaration on the Question of Hong Kong and the Basic Law, which is Hong Kong's constitution, Hong Kong has a high degree of autonomy except in foreign and defence affairs. Under the Basic Law, Hong Kong has its own legislative, legal and judicial systems and full economic autonomy for 50 years. Nevertheless, there can be no assurance that such policies will not be significantly altered, especially in the wake of the proposal of the Fugitive Offenders and Mutual Legal Assistance in Criminal Matters Legislation (Amendment) Bill in June 2019. Future economic, political and social developments in the PRC could have significant effects on Hong Kong, which may materially and adversely affect the Group's business, results of operations and financial condition.

Civil unrest, protests, demonstrations or rioting causing mass disruption to businesses and transportation since early 2019 may also affect the Guarantor's operations. There is no assurance that any unforeseeable interruptions to the business and operations can be mitigated or avoided. Moreover, prolonged civil unrest and an uncertain political environment, including any declaration by the Chief Executive of Hong Kong of a state of emergency pursuant to the Emergency Regulations Ordinance (Cap. 241) of the laws of Hong Kong which confers on the Chief Executive power to make any regulations whatsoever which he/she may consider desirable in the public interest in an occasion of emergency or public danger, may impact the Hong Kong economy and result in an economic slowdown. Civil unrest and instability may also dampen market confidence and sentiments. Civil unrest is outside the control of the Guarantor. Any demonstrations, protests or riots causing disruption to the city, the authorities' reaction to any such protests or riots if they recur, the Chief Executive's decision to make any declaration of a state of emergency and the instability of the political and economic conditions in the region, could adversely impact the Guarantor's business, financial condition and results of operations and the price of the Notes traded in the secondary market.

Under the PRC Enterprise Income Tax Law, the Issuer or the Guarantor may be classified as a "resident enterprise" of the PRC. Such classification could result in unfavourable tax consequences to the Issuer, the Guarantor and non-PRC Noteholders.

Under the PRC Enterprise Income Tax Law which took effect on 1 January 2008 and was later amended on 24 February 2017 and 29 December 2018 and its implementation rules which took effect on 1 January 2008 and was later amended on 23 April 2019 ("**EIT Law**"), an enterprise established outside of China with a "de facto management body" within China is deemed a "resident enterprise", meaning that it can be treated as a PRC enterprise for enterprise income tax purposes, although dividends paid from one resident enterprise to another may qualify as "tax-exempt income". The EIT Law defines "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting and properties" of the enterprise. The Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of their Body of Actual Management issued by the State Administration of Taxation on 22 April 2009 ("**Circular 82**") and amended on 29 December 2017 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be treated as a "resident enterprise" with a "de facto management body" located within China if all of the following requirements are satisfied at the same time: (i) the senior management and core management departments in charge of daily operations are located mainly within China; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in China; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within China; and (iv) at least half of the enterprise's directors or senior management with voting rights reside within China. Circular 82 also provides that the determination of the "de facto management body" shall be governed by the principle of substance over formality. The Administration of Taxation of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises (for Trial Implementation) issued by the State Administration of Taxation on 27 July, 2011 ("**Circular 45**") and respectively amended on 1 June 2015, 1 October 2016 and 15 June 2018, further prescribes the rules concerning the recognition, administration and taxation of a foreign enterprise "controlled by a PRC enterprise or PRC enterprise group". Circular 45 provides that the tax authority may determine that the foreign enterprise is a resident enterprise after an investigation.

The Issuer and the Guarantor believe that they are currently not PRC resident enterprises. However, since the Issuer and the Guarantor are directly or indirectly controlled by BOCOM, which is a joint stock limited company incorporated in the PRC, there is no assurance that the Issuer and the Guarantor will not be deemed "resident enterprises" under the EIT Law and, therefore, be subject to enterprise income tax at a rate of 25% on their global income in the future. If the Issuer and/or the Guarantor are considered to be PRC resident enterprises, interest payments and/or payments under the Guarantee and gains on disposition of Notes may be subject to PRC tax as described below.

Under the EIT Law thereunder, PRC withholding tax at a rate of 10% is applicable to PRC-source income derived by non-resident enterprises. The EIT Law further sets forth that interest income is viewed as PRC-source income if the enterprise or the establishment that pays or bears the interest is situated in China. If the Issuer or the Guarantor is deemed a PRC resident enterprise for tax purposes, interest and/or payments under the Notes or the Guarantee to non-PRC resident Noteholders may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at a rate of 10% for enterprise Noteholders and 20% for individual Noteholders. Any gains realised on the transfer of the Notes by such investors may also be subject to PRC income tax at a rate of 10% for non-PRC resident enterprise Noteholders or 20% for non-PRC resident individual Noteholders, if such gains are regarded as PRC-sourced. These rates may be reduced by an applicable tax treaty.

Moreover, the Ministry of Finance of the PRC and the State Administration of Taxation jointly issued the Circular of Full Implementation of Business Tax to VAT Reform (Cai Shui [2016] No. 36) (關於全面推開營業稅改徵增值稅試點的通知) (財稅[2016]36號) (the "**Circular 36**") on 23 March 2016 and as amended from time to time, which provides that all business tax payers are included into the pilot programme to pay value-added tax ("**VAT**") from 1 May 2016. VAT is applicable where the entities or individuals provide services within the PRC, including the provision of loans. If the Issuer is deemed to be a PRC Resident Enterprise under the EIT Law, it is unclear whether the Notes may be treated as loans under the new VAT regime, in which case gains from the sale of the Notes may be subject to VAT. However, VAT is unlikely to apply to any transfer of the Notes between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Notes, but there is uncertainty as to the applicability of VAT if either the seller or the purchaser of the Notes is located inside the PRC. As Circular 36 and laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

If either of the Issuer or the Guarantor is required under the EIT Law to withhold PRC tax on interest paid to non-PRC resident holders, it would be required, subject to certain exceptions, to pay such additional amounts as would result in receipt by a holder of a Note of such amounts as would have been received by such holder had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes and could have a material adverse effect on its ability to pay interest on, and repay the principal amount of, the Notes.

The Guarantor is subject to the risks relating to fluctuations in the value of Renminbi.

While the Guarantor's financial statement recording currency is Hong Kong dollars, a portion of its revenue and expenses are denominated in Renminbi. As a result, fluctuations in exchange rates, particularly Renminbi against Hong Kong dollars or U.S. dollars, could affect the Guarantor's profitability and may result in exchange losses of Renminbi-denominated assets and liabilities.

The volatility in exchange rate of Renminbi against U.S. dollars and other currencies is affected by, among other factors, changes in the PRC and international political and economic conditions and the fiscal and currency policies of the PRC government. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the Renminbi exchange rate to fluctuate within a regulated range that is based on market supply and demand with reference to a basket of currencies. Renminbi appreciated more than 20% against U.S. dollars over the following three years. From July 2008 to June 2010, Renminbi traded within a narrow range against U.S. dollars. On 19 June 2010, the People's Bank of China (the "**PBOC**") announced that the PRC government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. The floating band was expanded to 1.0% on 16 April 2012 and further to 2.0% on 17 March 2014. These changes in currency policy resulted in significant appreciation of the Renminbi against the U.S. dollar. In August 2015, the Renminbi experienced a substantial devaluation as a result of adjustments made by the PBOC to the Renminbi to U.S. dollar exchange rate. In the fourth quarter of 2016, the Renminbi further depreciated in the backdrop of a surging U.S. dollar and persistent capital outflows of China. From the second quarter of 2018, the Renminbi experienced another round of depreciation due to the trade war between China and United States. On 5 August 2019, PBOC set the Renminbi's daily reference rate above 7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The currency devaluation of the Renminbi was intended to bring it more in line with the market by taking market signals into account, as well as boosting the competitiveness of the PRC's exports. The PRC government may make further adjustments to the exchange rate system in the future. There is no assurance that the Renminbi will not experience significant appreciation or depreciation against the Hong Kong dollar or U.S. dollar in the future. Any significant increase in the value of the Hong Kong dollar against foreign currencies could reduce the value of the Guarantor's foreign currency-denominated revenue and assets.

RISKS RELATING TO THE NOTES AND THE GUARANTEES

Risks Relating to the Notes

The Financial Institutions (Resolution) Ordinance may adversely affect the Notes.

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "**FIRO**") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorised institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities (a "**FIRO Group Entity**"). The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution or within scope financial institution in Hong Kong. In particular, in the context of a resolution of any FIRO Group Entity, the relevant resolution authority will have the ability to resolve other entities within the Group as if it were a within scope financial institution for the purposes of FIRO and take certain actions and make certain directions in relation to it. Any such actions could potentially affect contractual and property rights relating to the Guarantor and/or certain subsidiaries of the Guarantor. In addition, the relevant resolution authority is provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the Notes or the principal amount of, or interest on, the Notes, and powers to amend or alter the contractual provisions of the Notes, all of which may adversely affect the value of the Notes, and the holders thereof may suffer a loss of some or all of their investment as a result.

Holders of the Notes (whether senior or subordinated) may become subject to and bound by the FIRO. The implementation of FIRO remains untested and certain detail relating to FIRO will be set out through secondary legislation and supporting rules. Therefore, the Guarantor is unable to assess the full impact of FIRO on the financial system generally, the Guarantor's counterparties, the Guarantor, any of its consolidated subsidiaries or other entities, the Guarantor's operations and/or its financial position.

The Notes and the Guarantee are unsecured obligations.

The Notes and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The repayment of the Notes and payment under the Guarantee may be adversely affected if:

- the Issuer or Guarantor enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's or Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or Guarantor's assets may not be sufficient to pay amounts due on the Notes.

The Notes may not be a suitable investment for all investors.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. A potential investor should ensure that he has sufficient knowledge and experience (either alone or with the help of a financial adviser) to make his own legal, tax, accounting and financial evaluation of the merits and risks of investing in the Notes and that he considers the suitability of the Notes as an investment in light of his own circumstances and financial condition.

The obligations of the Guarantor under the Guarantee are structurally subordinated to the liabilities and obligations of its subsidiaries.

The Guarantor's ability to perform their obligations under the Guarantee is effectively dependent on the cash flow of its subsidiaries. Any claim by the Trustee against the Guarantor in relation to the Guarantee will be effectively subordinated to all existing and future obligations of the Guarantor's subsidiaries (which have not provided the Guarantee), and all claims by creditors of such subsidiaries will have priority to the assets of such entities over the claims of the Trustee under the Guarantee.

Investors shall pay attention to any modification and waivers.

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders (including by way of conference call or by use of a videoconference platform) to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

The Terms and Conditions of the Notes may be amended, modified, or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

The Terms and Conditions of the Notes also provide that the Trustee may (but shall not be obliged to) agree, without the consent of Noteholders, to (i) any modification that is of a forma, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, that is not materially prejudicial to the interests of the Noteholders.

Investors shall be aware of the effect of change of law.

The Trust Deed governing the Notes is based on English law in effect as of the date of issue of the relevant Notes. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the relevant Notes.

Limited liquidity of the Notes may affect the market price of the Notes.

The Notes will not be registered under the Securities Act or the securities or blue sky laws of any state of the United States. The Notes are being offered and sold either to non-U.S. persons in offshore transactions within the meaning of and in compliance with Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act. Consequently, the Notes are subject to restrictions on transfer and resale.

The Notes are a new issue of securities with no established trading market. Application has been made to list the Notes on the Stock Exchange. However, if for any reason the Notes are not listed, the liquidity of the Notes may be negatively impacted.

A liquid or active trading market for the Notes may not develop. If an active trading market for the Notes does not develop or does develop and is not maintained, the market price of the Notes may be adversely affected. If the Notes are traded, they may trade at a discount from their initial issue price, depending on prevailing interest rates, the market for similar securities, the Guarantor's performance and other factors. See "*Subscription and Sale*".

In addition, the Notes may initially be sold to a small number of investors. A limited number of investors may purchase a significant portion of the Notes offered. The existence of any such significant holder(s) of the Notes may reduce the liquidity of the Notes in the secondary trading market. Accordingly, the Guarantor cannot predict whether an active trading market for the Notes will develop or be sustained, in which case investors may not be able to resell their Notes at their fair market value or at all. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Guarantor's operations and the market for similar securities.

The Issuer has no material assets and will rely on remittances from the Guarantor and its subsidiaries to make payments under the Notes.

The Issuer will not conduct business or any other activities other than the offering, sale or issuance of indebtedness and the lending of the proceeds thereof to any company controlled, directly or indirectly, by the Guarantor and any other activities in connection therewith or related thereto. The Issuer does not and will not have any material assets other than amounts due to it from the Guarantor or its subsidiaries, and its ability to make payments under the Notes will depend on its receipt of timely remittances from the Guarantor or its subsidiaries.

The ability of the Guarantor to make payments to the Issuer is subject to, among other things, its cash flow conditions, restrictions contained in its articles of association, applicable laws, restrictions contained in its debt instruments and claims by its creditors. Further, the Guarantor derives part of its revenue from its subsidiaries. The Guarantor thus may need to depend on dividends or interest and principal payments from its subsidiaries to satisfy its obligations.

As a result, any claim by the Issuer against the Guarantor will be effectively subordinated to existing and future claims of the secured creditors of the Guarantor and, in the case of payment by the Guarantor to the Issuer in the form of capital increases, also to the claims of the other creditors of the Guarantor.

The Issuer's claims will be further effectively subordinated to all existing and future claims of the lenders, holders of debt securities and other creditors, including trade creditors, of the Guarantor's subsidiaries (other than the Issuer), from which the Guarantor derives a portion, though not a majority, of its revenue. In the event of an insolvency, bankruptcy, liquidation, reorganisation, dissolution or winding up of the business of the Guarantor or any of the Guarantor's subsidiaries (other than the Issuer), the creditors of the Guarantor or the creditors of the Guarantor's subsidiaries, as the case may be, generally will have the right to be paid in full before any distribution is made to the Guarantor or to the Issuer.

The Guarantor will require a significant amount of cash to meet its obligations under its indebtedness and to sustain its operations, which the Guarantor may not be able to generate or raise.

The Guarantor's ability to make payments on its indebtedness and its contractual obligations and to fund its ongoing operations will depend on its future performance and its ability to generate cash, which to a certain extent is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in this "*Risk Factors*" section, many of which are beyond the Guarantor's control. If the Guarantor's future cash flows from operations and other capital resources are insufficient to pay its debt obligations, its contractual obligations, or to fund its other liquidity needs, the Guarantor may be forced to sell assets or attempt to restructure or refinance its existing indebtedness. No assurance can be given that the Guarantor would be able to accomplish any of these measures on a timely basis or on satisfactory terms or at all.

The Guarantor and the Issuer are ultimately state owned entities, but none of the PRC governmental bodies is an obligor under the Notes or the Guarantee. The payment obligations under the Notes or the Guarantee remain the sole obligations of the Issuer and/or the Guarantor (as the case may be), and any such ownership or control by the PRC government does not necessarily correlate to, or provide any assurance as to, the financial condition of the Issuer or the Guarantor. Under no circumstances shall any of the PRC governmental bodies have any obligation arising out of or in connection with the Notes or the Guarantee in lieu of the Issuer or the Guarantor.

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in their respective debt agreements, or the Notes, there could be a default under the terms of these agreements, or the Notes, which could cause repayment of the relevant debt to be accelerated.

The Group has a large number of subsidiaries, whether onshore or offshore, which operate and provide a wide-range of financial services. The Group from time to time and during its ordinary course of business enter into financing agreements or investment arrangements with financial institutions and relevant parties. There is no assurance that non-compliance or dispute will not occur under such agreements or arrangement, or if they occur, that they will be properly rectified.

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in the Notes, or is unable to comply with its current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements which are not rectifiable, or rectifiable but not rectified, unless the Guarantor or the relevant subsidiaries, as the case may be, are able to obtain timely waivers or otherwise remedy such breaches, the creditors of the debt could terminate their commitments to lend to the Issuer or the Guarantor, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of the Group's debt agreements, and the Notes, contain (or may in the future contain) cross-acceleration or cross-default provisions. As a result, any default by the Issuer or the Guarantor, or any other member of the Group, under one debt agreement may cause the acceleration of repayment of debt or result in a default under its other debt agreements. If any of these events occur, there can be no assurance that the assets and cash flows of the Guarantor or its subsidiaries would be sufficient to repay in full all of their respective debts as they become due, or that the Guarantor or its subsidiaries would be able to find alternative financing. Even if the Guarantor and its subsidiaries could obtain alternative financing, there can be no assurance that such financing would be on terms that are favourable or acceptable to the Guarantor or, as the case may be, its subsidiaries.

The Issuer or the Guarantor may not have the ability to raise the funds necessary to finance an offer to repurchase the Notes upon the occurrence of certain events constituting a change of control as required by the Trust Deed governing the Notes.

Upon the occurrence of certain events constituting a "*Change of Control*," as such term is defined in the Trust Deed governing the Notes, the Issuer is required to make an offer to repurchase all outstanding Notes at a purchase price in cash equal to 101 per cent. of the principal amount of the Notes. If a Change of Control were to occur, no assurance can be given that the Issuer would have sufficient funds available at such time to pay the purchase price of the outstanding Notes. A Change of Control may result in an event of default under, or acceleration of, other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the Change of Control itself does not.

The Change of Control provision contained in the Trust Deed governing the Notes may not necessarily afford Noteholders protection in the event of certain important corporate events, including a reorganisation, restructuring, merger, recapitalisation, sale of all or substantially all assets or other similar transaction that may adversely affect Noteholders, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control". Except as described under "*Terms and Conditions of the Notes — Repurchase Upon Change of Control*", the Trust Deed governing the Notes does not contain provisions that require the Issuer or the Guarantor to offer to repurchase or redeem the Notes in the event of a reorganisation, restructuring, merger, recapitalisation, sale of all or substantially all assets or similar transaction.

The liquidity and price of the Notes may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of the Guarantor and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There can be no assurance that these developments will not occur in the future.

There might be difficulties in effecting service of legal process and enforcing judgments against the Guarantor and its management.

The Terms and Conditions of the Notes and the transaction documents are governed by English law and the Issuer and the Guarantor have submitted to the exclusive jurisdiction of the Hong Kong courts. Although the Guarantor is a company incorporated under the laws of Hong Kong, some of its subsidiaries are located in the PRC. In addition, most of the Guarantor's directors, supervisors and senior management reside within the PRC, and the assets of its directors, supervisors and senior management may be located within the PRC.

Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which the Guarantor is subject are also relatively undeveloped and untested. PRC courts and foreign courts may recognize and enforce respective judgments on the basis of signed bilateral agreements or reciprocity, however, the PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by the courts in most other jurisdictions. Therefore, it may not be possible for investors to effect service of process upon the Guarantor or its management in the PRC.

On 14 July 2006, Hong Kong and the mainland PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**2006 Arrangement**"), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the 2006 Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute which has arisen or may arise from a particular legal relationship. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the 2006 Arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the 2006 Arrangement may still be uncertain.

On 18 January 2019, the Supreme People's Court of the People's Republic of China and the Department of Justice under the Government of the Hong Kong Special Administrative Region signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) (the "**2019 Arrangement**"). The 2019 Arrangement stipulates the scope and particulars of judgments, the procedures and ways of the application for recognition or enforcement, the review of the jurisdiction of the court that issued the original judgment, the circumstances where the recognition and enforcement of a judgment shall be refused, and the approaches towards remedies, among others. The 2019 Arrangement shall apply to any judgment made on or after its effective date by the courts of both sides. The 2006 Arrangement shall be terminated on the same day when the 2019 Arrangement comes into effect. If a "written choice of court agreement" has been signed by parties according to the 2006 Arrangement prior to the effective date of the 2019 Arrangement, the 2006 Arrangement shall still apply. Although the 2019 Arrangement has been signed, its effective date has yet to be announced. Therefore, there are still uncertainties about the outcomes and effectiveness of enforcement or recognition of judgments under the 2019 Arrangement.

Unlike other bonds issued in the international capital markets where holders of such bonds would typically not be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts. Thus, the Noteholders' ability to initiate a claim outside Hong Kong will be limited.

In addition, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by a Hong Kong court and governed by English law, there can be no assurance that the PRC courts will do so for all such judgments.

Additional procedures may be required to be taken to bring English law governed matters or disputes to the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes.

The Notes, the Receipts, the Coupons and the Talons, the Trust Deed, Agency Agreement and the Guarantee are governed by English law, whereas parties to these documents are submitting to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the 2006 Arrangement, judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts. However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts governed by English law, there can be no assurance that the PRC courts will do so for all such judgments, as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the Noteholders will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the Noteholders' ability to initiate a claim outside Hong Kong will be limited.

Developments in other markets may adversely affect the market price of the Notes.

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the sub-prime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the Stock Exchange, which standards may be different from those applicable to companies in certain other countries.

The Issuer has been and will continue to be subject to reporting obligations in respect of the Notes to be listed on the Stock Exchange. The disclosure standards imposed by the Stock Exchange may be different than those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to what holders of Notes are accustomed to.

The ratings of the Programme may be downgraded or withdrawn.

The Programme has been assigned a rating of "A" by Fitch. In addition, the Guarantor has been assigned a rating of "A3" by Moody's, a rating of "A" by Fitch. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Issuer and the Guarantor to perform their respective obligations under the Notes and the Guarantee and credit risks in determining the likelihood that payments will be made when due under the Notes. A rating is not a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawn at any time. A reduction or withdrawal of the ratings may adversely affect the market price of the Notes and the Issuer's or Guarantor's ability to access the debt capital markets.

The insolvency laws of British Virgin Islands and Hong Kong and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Notes are familiar.

As the Issuer and the Guarantor are incorporated under the laws of British Virgin Islands and Hong Kong, respectively, any insolvency proceeding relating to the Issuer or the Guarantor would likely involve British Virgin Islands or Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

The Trustee may request holders of the Notes to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, the Trustee may, at its sole discretion, request holders of the Notes to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes steps and/or actions and/or institutes proceedings on behalf of holders of the Notes. The Trustee shall not be obliged to take any such steps and/or actions and/or institute any such proceedings if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such steps and/or actions can be taken and/or such proceedings can be instituted. The Trustee may not be able to take steps and/or actions and/or institute proceedings, notwithstanding the provision of an indemnity and/or security and/or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable laws and regulations, it will be for the holders of the Notes to take such steps and/or actions and/or institute such proceedings directly.

The Notes may be redeemed by the Issuer before maturity at a redemption price equal to 100 per cent. of the principal amount plus accrued and unpaid interest in the event that any of the Issuer or the Guarantor is treated as a "resident enterprise" of the PRC and hence need to pay Additional Amounts.

As discussed above under "*Risk Factors — Risks Relating to the PRC and Hong Kong — Under the PRC Enterprise Income Tax Law, the Issuer or the Guarantor may be classified as a 'resident enterprise' of the PRC. Such classification could result in unfavourable tax consequences to the Issuer, the Guarantor and non-PRC Noteholders.*", the Issuer and the Guarantor may be required under the EIT Law to withhold PRC taxes on interest paid to non-resident Noteholders. Subject to certain exceptions set forth in "*Terms and Conditions of the Notes — Redemption — Redemption for Taxation Reasons*," in the event that any of the Issuer or the Guarantor, as the case may be, is required to pay Additional Amounts (as defined in "*Terms and Conditions of the Notes*") with respect to any PRC withholding taxes as a result of (1) any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of a Relevant Taxing Jurisdiction (as defined in the "Terms and Conditions of the Notes"), or (2) any change in the, or announcement of any, official interpretation or official application of such laws, regulations or rulings, which results in the Issuer or the Guarantor being treated as a PRC resident enterprise, the Issuer may redeem the Notes, in whole but not in part, at a redemption price equal to 100 per cent. of the principal amount plus accrued and unpaid interest (including any Additional Amounts). In addition, the Issuer may redeem the Notes if as a result of certain changes or amendments to laws & regulations and rulings or change in or announcement of their official application, payment to the Issuer, by the Guarantor or any wholly-owned subsidiary of the Guarantor to enable the Issuer to pay interest or additional amounts is subject to withholding or deduction of taxes. If the Issuer is unable to redeem the Notes, the requirement to pay Additional Amounts will increase the cost of servicing interest payments on the Notes and could have a material adverse effect on the ability to pay interest on, and repay the principal amount of, the Notes, as well as the profitability and cash flow of the Issuer or the Guarantor.

Considerations related to a particular issue of the Notes.

A wide range of the Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

(a) Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of the Notes. During any period when the Issuer may elect to redeem the Notes, the market value of those Notes will generally not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

The Issuer may be expected to redeem the Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor would generally not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

(b) Index Linked Notes and Dual Currency Notes

The Issuer may issue the Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each a "**Relevant Factor**"). In addition, the Issuer may issue the Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

(i) the market price of such Notes may be volatile;

(ii) they may receive no interest;

(iii) the payment of principal or interest may occur at a different time or in a different currency than expected;

(iv) the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero;

(v) a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;

(vi) if a Relevant Factor is applied to the Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable will likely be magnified; and

(vii) the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield.

(c) Partly-paid Notes

The Issuer may issue the Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of its investment.

(d) Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

(e) Inverse Floating Rate Notes

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

(f) Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

(g) Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks relating to the Notes which are linked to "benchmarks"

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be "benchmarks" are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, to disappear entirely, or have other consequences which cannot be predicted.

Regulation (EU) 2016/1011 (the "**EU Benchmark Regulation**") was published in the Official Journal of the European Union on 29 June 2016 and has applied from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that have applied since 30 June 2016). Regulation (EU) 2016/1011 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK Benchmark Regulation**") among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed).

The EU Benchmark Regulation and/or the UK Benchmark Regulations, as applicable, could have a material impact on any Notes linked to LIBOR, EURIBOR or another "benchmark" rate or index, in particular, if the methodology or other terms of the "benchmark" are changed in order to comply with the terms of the EU Benchmark Regulation and/or the UK Benchmark Regulation as applicable, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. In addition, each of the EU Benchmark Regulation and the UK Benchmark Regulation stipulates that each administrator of a "benchmark" regulated thereunder must be licensed by the competent authority of the Member State where such administrator is located. There is a risk that administrators of certain "benchmarks" will fail to obtain a necessary licence, preventing them from continuing to provide such "benchmarks". Other administrators may cease to administer certain "benchmarks" because of the additional costs of compliance with the EU Benchmark Regulation, the UK Benchmark Regulations and other applicable regulations, and the risks associated therewith.

There is also a risk that certain benchmarks may continue to be administered but may in time become obsolete. As an example of such benchmark reforms, on 27 July 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021, which indicates that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021 and that planning a transition to alternative reference rates that are based firmly on transactions must begin. In November 2020, the administrator of LIBOR announced that it will carry out a public consultation on its intention to cease the publication of the one-week and two-month USD LIBOR settings immediately following the LIBOR publication on 31 December 2021, and the remaining USD LIBOR settings (the "**Relevant LIBOR Settings**") immediately following the LIBOR publication on 30 June 2023. As of the date of this Offering Circular, no official result of such consultation has been published and there can be no assurance that the administrator of LIBOR will extend the publication of the Relevant LIBOR Settings until 30 June 2023.

On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area.

Following the implementation of any such potential reforms, the manner of administration of benchmarks may change, with the result that they may perform differently than in the past, or the benchmark could be eliminated entirely, or there could be other consequences that cannot be predicted. The elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could result in adverse consequences to holders of any securities linked to such benchmark (including but not limited to Floating Rate Notes whose interest rates are linked to LIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities based on the same benchmark.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR and/or any page on which such benchmark may be published (or any other successor service) becomes unavailable or a Benchmark Event (as defined in the Terms and Conditions) otherwise occurs. Such fallback arrangements include the possibility that the Rate of Interest could be set by reference to a Successor Rate or an Alternative Rate (both as defined in the Terms and Conditions), with or without the application of an adjustment spread and may include amendments to the Terms and Conditions of the Notes to ensure the proper operation of the successor or replacement benchmark, all as determined by the Issuer (acting in good faith and in consultation with an Independent Adviser). If, following the occurrence of a Benchmark Event, no Successor Rate or Alternative Rate is determined, the ultimate fallback for the purposes of calculation of the Rate of Interest for a particular Interest Period may result in the Rate of Interest for the last preceding Interest Period being used. This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. Due to the uncertainty concerning the availability of Successor Rates and Alternative Rates, the involvement of an Independent Adviser and the potential for further regulatory developments there is a risk that the relevant fallback provisions may not operate as intended at the relevant time.

Specifically, the sustainability of LIBOR has been questioned as a result of the absence of relevant active underlying markets and possible disincentives (including possibly as a result of benchmark reforms) for market participants to continue contributing to such benchmarks. The FCA has indicated through a series of announcements that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On 5 March 2021, ICE Benchmark Administration Limited ("**IBA**"), the administrator of LIBOR, published a statement confirming its intention to cease publication of all LIBOR settings, together with the dates on which this will occur, subject to the FCA exercising its powers to require IBA to continue publishing such LIBOR settings using a changed methodology (the "**IBA announcement**"). Concurrently, the FCA published a statement on the future cessation and loss of representativeness of all LIBOR currencies and tenors, following the dates on which IBA has indicated it will cease publication (the "**FCA announcement**"). Permanent cessation will occur immediately after 31 December 2021 for all Euro and Swiss Franc LIBOR tenors and certain Sterling, Japanese Yen and U.S. Dollar LIBOR settings and immediately after 30th June 2023 for certain other USD LIBOR settings. In relation to the remaining LIBOR settings (1-month, 3-month and 6-month Sterling, U.S. Dollar and Japanese Yen LIBOR settings), the FCA will consult on, or continue to consider the case for, using its powers to require IBA to continue their publication under a changed methodology for a further period after end-2021 (end-June 2023 in the case of U.S. Dollar LIBOR). The FCA announcement states that consequently, these LIBOR settings will no longer be representative of the underlying market that such settings are intended to measure immediately after 31 December 2021, in the case of the Sterling and Japanese Yen LIBOR settings and immediately after 30 June 2023, in the case of the USD LIBOR settings. Any continued publication of the Japanese Yen LIBOR settings will also cease permanently at the end of 2022.

Any such consequences could have a material adverse effect on the value of and return on any such Notes. Moreover, any of the above matters or any other significant change to the setting or existence of any relevant reference rate could affect the ability of the Issuer to meet its obligations under the Floating Rate Notes or could have a material adverse effect on the value or liquidity of, and the amount payable under, the Floating Rate Notes. Investors should consider these matters when making their investment decision with respect to the relevant Floating Rate Notes.

The use of Secured Overnight Financing Rate ("SOFR") as a reference rate is subject to important limitations.

The rate of interest on the Floating Rate Notes may be calculated on the basis of SOFR (as further described under Condition 5(b)(iii)(C) of the Terms and Conditions of the Notes).

In June 2017, the New York Federal Reserve's Alternative Reference Rates Committee (the "**ARRC**") announced SOFR as its recommended alternative to U.S. dollar LIBOR. However, the composition and characteristics of SOFR are not the same as those of LIBOR. SOFR is a broad U.S. Treasury repo-financing rate that represents overnight secured funding transactions. This means that SOFR is fundamentally different from LIBOR for two key reasons. First, SOFR is a secured rate, while LIBOR is an unsecured rate. Second, SOFR is an overnight rate, while LIBOR represents interbank funding over different maturities. As a result, there can be no assurance that SOFR will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, or regulatory events. For example, since publication of SOFR began in April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmark or other market rates.

As SOFR is an overnight funding rate, interest on SOFR-based Notes with interest periods longer than overnight will be calculated on the basis of either the arithmetic mean of SOFR over the relevant interest period or compounding SOFR during the relevant interest period. As a consequence of this calculation method, the amount of interest payable on each interest payment date will only be known a short period of time prior to the relevant interest payment date. Noteholders therefore will not know in advance the interest amount which will be payable on such Notes.

Although the Federal Reserve Bank of New York has published historical indicative SOFR information going back to 2014, such prepublication of historical data inherently involves assumptions, estimates and approximations. Noteholders should not rely on any historical changes or trends in the SOFR as an indicator of future changes in the SOFR.

The Federal Reserve Bank of New York notes on its publication page for SOFR that use of the SOFR is subject to important limitations and disclaimers, including that the Federal Reserve Bank of New York may alter the methods of calculation, publication schedule, rate revision practices or availability of the SOFR at any time without notice. In addition, SOFR is published by the Federal Reserve Bank of New York based on data received from other sources. There can be no guarantee that the SOFR will not be discontinued or fundamentally altered in a manner that is materially adverse to the interests of the Noteholders. If the manner in which the SOFR is calculated is changed or if SOFR is discontinued, that change or discontinuance may result in a reduction or elimination of the amount of interest payable on the Notes and a reduction in the trading prices of the Notes which would negatively impact the Noteholders who could lose part of their investment.

The Terms and Conditions of the Notes provide for certain fallback arrangements in the event that a SOFR Benchmark Event occurs, which is based on the ARRC recommended language. There is however no guarantee that the fallback arrangements will operate as intended at the relevant time or operate on terms commercially acceptable to all Noteholders. Investors should consult their own independent advisers and make their own assessment about the potential risks in making any investment decision with respect to any Notes linked to SOFR.

The market continues to develop in relation to SOFR as a reference rate for Floating Rate Notes.

Investors should be aware that the market continues to develop in relation to SOFR and its adoption as an alternative to U.S. dollar LIBOR. Market participants and relevant working groups are exploring alternative reference rates based on SOFR (which seek to measure the market's forward expectation of a SOFR rate over a designated term). The market or a significant part thereof may adopt an application of SOFR that differs significantly from that set out in the Terms and Conditions of the Notes. In addition, the manner of adoption or application of SOFR in the bond markets may differ materially compared with the application and adoption of SOFR in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SOFR in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing SOFR.

The use of SOFR as a reference rate for bonds is nascent, and may be subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of bonds referencing such rates. Notes referencing SOFR may have no established trading market when issued, and an established trading market may never develop or may not be very liquid which, in turn, may reduce the trading price of such Notes or mean that investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market, and may consequently suffer from increased pricing volatility and market risk. Investors should consider these matters when making their investment decision with respect to Notes referencing SOFR.

Risks Relating to Renminbi Denominated Notes

Notes denominated in Renminbi (the "**Renminbi Notes**") may be issued under the Programme. Renminbi Notes contain particular risks for potential investors.

Investment in the Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against the Hong Kong dollar and other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The Issuer will make all payments of interest and principal with respect to the Renminbi Notes in Renminbi. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. Since August 2015, the value of Renminbi has significantly depreciated against the Hong Kong dollar. See "*Exchange Rate*". If the value of Renminbi further depreciates against the Hong Kong dollar or other foreign currencies, the value of the investment made by a holder of the Renminbi Notes in Hong Kong dollars or any other foreign currency terms will decline.

Investment in the Renminbi Notes is subject to interest rate risks.

The PRC government has gradually liberalised its regulation of interest rates in recent years. Further liberalisation may increase interest rate volatility. The trading price of the Renminbi Notes will vary with the fluctuations in the Renminbi interest rates. If holders of the Renminbi Notes propose to sell their Renminbi Notes before their maturity, they may receive an offer lower than the amount they have invested.

Renminbi is not freely convertible; there are significant restrictions on the remittance of Renminbi into and outside of the PRC which may adversely affect the liquidity of the Renminbi Notes.

Renminbi is not freely convertible at present. The PRC Government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar, despite significant reduction in control by it in recent years over routine foreign exchange transactions under current account items as well as other frequent routine foreign exchange transactions. However, remittance of Renminbi by foreign investors into the PRC for purposes known as capital account items, such as capital contributions, is generally permitted only upon obtaining specific approvals from, or completing specific registrations or filings with relevant authorities on a case-by-case basis and subject to a strict monitoring system. Although the PRC Government is liberalising the control over cross-border Renminbi remittances (especially given the goal to achieve full convertibility of capital accounts (if the risk is under control) and promote convenient cross-border Renminbi flow in the China (Shanghai) Pilot Free Trade Zone) and, from 1 October 2016, Renminbi has been added to the Special Drawing Rights basket created by the International Monetary Fund and policies further improving accessibility to RMB to settle cross-border transactions in foreign currencies were implemented by the PBOC, there is no assurance that the PRC Government will continue to gradually liberalise control over cross border remittance of Renminbi in the future or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance their obligations under the Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and the Issuer's ability to source Renminbi outside the PRC to service the Renminbi Notes.

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited.

As of 31 December 2019, the total amount of Renminbi deposits held by institutions authorised to engage in Renminbi banking business in Hong Kong amounted to approximately RMB632.2 billion.

While the PBOC has established Renminbi clearing and settlement mechanisms for participating banks in a number of financial centres and cities (each, an "**Renminbi Clearing Bank**"), including but not limited to Hong Kong, Singapore and Taiwan, through settlement agreements on the clearing of Renminbi business (the "**Settlement Agreements**") with Bank of China (Hong Kong) Limited in Hong Kong, Industrial and Commercial Bank of China, Singapore Branch in Singapore and Bank of China Limited, Taipei Branch in Taiwan (each, a "**Renminbi Clearing Bank**"), the current size of Renminbi-denominated financial assets outside the PRC is limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The Renminbi Clearing Bank only have access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In such cases, the participating banks will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent the Issuer is required to source Renminbi outside the PRC to service the Renminbi Notes, there is no assurance that the Issuer will be able to source such Renminbi on satisfactory terms, if at all.

Payments in respect of the Renminbi Notes will only be made to investors in the manner specified in such Renminbi Notes.

All payments to investors in respect of the Renminbi Notes will be made solely by (i) when the Renminbi Notes are represented by Global Notes or Global Certificates, transfer to a Renminbi bank account maintained in Hong Kong in accordance with the prevailing rules and procedures, or (ii) when the Renminbi Notes are in definitive form, transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Issuer cannot be required to make payment by any other means (including in any other currency or in bank notes, by check or draft or by transfer to a bank account in China).

EXCHANGE RATE

PRC

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the markets during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange market. Since 1994, the exchange rate for the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been set by the PBOC based on the previous day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system, and changed its decade-old policy of pegging the value of the Renminbi to that of the U.S. dollar to allow the value of the Renminbi to fluctuate within a narrow and managed band based on market supply and demand and by reference to a basket of currencies. This change in policy has resulted in a significant appreciation of the Renminbi against the U.S. dollar.

The PRC government has made further adjustments to the exchange rate system. The PBOC authorised the China Foreign Exchange Trading Centre, effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 a.m. each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and as the over-the-counter exchange rate for that business day. On 18 May 2007, the PBOC enlarged, effective from 21 May 2007, the floating band for the trading prices in the interbank spot exchange market of the Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. On 19 June 2010, the PBOC announced that in view of the recent economic situation and financial market developments in China and abroad, and as the balance of payments situation in China, it has decided to proceed further with the reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. According to the announcement, the exchange rate floating bands will remain the same as previously announced but the PBOC will place more emphasis on reflecting the market supply and demand with reference to a basket of currencies. On 12 April 2012, the PBOC announced that effective from 16 April 2012, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar would be enlarged from 0.5 per cent. to 1.0 per cent. around the central parity rate, which allows the Renminbi to fluctuate against the U.S. dollar by up to 1.0 per cent. above or below the central parity rate published by the PBOC. In March 2014, the PBOC further enlarged the floating band for the trading price of RMB against the U.S. dollar on the inter-bank spot exchange market to 2.0 per cent. around the central parity rate. On 11 August 2015, the PBOC adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate of the last trading date, the supply and demand of foreign exchange and the rate change at primary international currencies. In January and February 2016, Renminbi experienced further fluctuations in value against the U.S. dollar. In 2017, the Renminbi depreciated as against the U.S. dollar and continued to fluctuate in 2018 and early 2019. Against the backdrop of uncertain trade and global economy, the PBOC authorised the China Foreign Exchange Trade System and National Interbank Funding Centre on 8 August 2019 to publish the central parity rate of the Renminbi as against the U.S. dollar in the interbank exchange market, which was US$1.00 to RMB7.0039. That was the first time the value of the Renminbi as against the U.S. dollar fell below RMB7.00 per a U.S. dollar since 2008. The PRC government may in the future make further adjustments to the exchange rate system.

Although the PRC governmental policies have been introduced in 1996 to relax restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, still requires the approval of the State Administration of Foreign Exchange of the PRC (the "**SAFE**") and other relevant authorities. On 11 August 2015, the PBOC adopted a more market-oriented approach and announced that the midpoint for the value of the Renminbi against the U.S. dollar would be quoted by the market makers with reference to the closing rate of the previous trading session.

On 11 December 2015, the China Foreign Exchange Trade System, a sub-institutional organisation of the PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. The PRC government may in the future make further adjustments to the exchange rate system.

The following table sets forth for the periods indicated, certain information concerning the exchange rates between Hong Kong dollars and U.S. dollars. The exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

	Exchange Rate			
Period	**Period end**	**Average[1]**	**High**	**Low**
	(HK$ per US$1.00)			
2012	7.7507	7.7556	7.7656	7.7494
2013	7.7539	7.7565	7.7629	7.7526
2014	7.7531	7.7554	7.7648	7.7498
2015	7.7507	7.7519	7.7559	7.7496
2016	7.7534	7.7618	7.7763	7.7534
2017	7.8128	7.7950	7.8267	7.7627
2018	7.8305	7.8376	7.8486	7.8244
2019	7.7894	7.8335	7.8498	7.7894
2020	7.7534	7.7562	7.7927	7.7500
2021				
January	7.7531	7.7533	7.7555	7.7517
February	7.7567	7.7529	7.7567	7.7515
March	7.7746	7.7651	7.7746	7.7562
April	7.7664	7.7691	7.7849	7.7596
May (through May 28)	7.7610	7.7654	7.7697	7.7608

Note:

(1) Calculated by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which were calculated by averaging the daily rates for such month or part thereof.

USE OF PROCEEDS

The net proceeds from each issue of the Notes will be lent by the Issuer to the Guarantor and/or any company controlled by the Guarantor for general corporate purpose. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

CAPITALISATION AND INDEBTEDNESS

The following table sets out the total capitalisation, equity and indebtedness of the Guarantor as of 31 December 2020 which has been extracted from the consolidated statement of financial position of the Guarantor as of the same date. The table should be read in conjunction with the 2020 Audited Financial Statements and the notes thereto.

	As of 31 December 2020
	HK$'000
Bank loans and other borrowings	12,703,492
Subordinated loans from the ultimate holding company	1,000,000
TOTAL BORROWINGS	**13,703,492**
Share capital	3,942,216
Retained earning	3,419,833
Revaluation reserve	(95,069)
Foreign currency translation reserve	39,999
Total equity attributable to equity shareholders of the Guarantor	**7,306,979**
Non-controlling interests	476,959
TOTAL EQUITY	**7,783,938**
TOTAL CAPITALISATION[1]	**21,487,430**

Note:

1 Total capitalisation represents total borrowing and total equity of the Guarantor.

There has been no material adverse change in the Group's capitalisation since 31 December 2020. The Group may from time to time incur bank loans and borrowings to finance the Group's operations during its ordinary course of business.

DESCRIPTION OF THE ISSUER

The Issuer, incorporated in the British Virgin Islands on 11 May 2021 with company number 2062794, is a direct wholly-owned subsidiary of the Guarantor. The Issuer was established for the sole purpose of issuing notes under the Programme. The registered office of the Issuer is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

The Issuer is not required by the laws of the British Virgin Islands to carry out annual audits, appoint auditors or publish financial statements. Records and underlying documentation of the Issuer which are sufficient to show and explain the Issuer's transactions and financial position have been maintained by the Issuer at the office of its registered agent or at a place determined by the director(s) pursuant to the memorandum and articles of association of the Issuer and the laws of the British Virgin Islands. Since the date of its incorporation, no financial statements of the Issuer have been published. The Issuer will be managed in accordance with its memorandum and articles of association and the laws of the British Virgin Islands.

As of the date of this Offering Circular, the Issuer has no subsidiaries and the directors of the Issuer are MENG Yu and SU Fen. The business address of the directors of the Issuer is at 9/F, Man Yee Building, 68 Des Voeux Road, Central, Hong Kong.

As of the date of this Offering Circular, there are no potential conflicts of interest between any duties of the directors of the Issuer and their private interests and/or other duties.

As of the date of this Offering Circular, one share of the Issuer has been duly authorised and issued to the Guarantor and is fully paid. The register of members or a copy of the register of members of the Issuer is maintained at its registered office at the office of Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands.

DESCRIPTION OF THE GROUP

OVERVIEW

The Guarantor is a well-established and the only integrated platform for securities and related financial services of BOCOM in Hong Kong, one of the state-owned joint stock commercial banks. Founded in 1998, the Guarantor was one of the earliest licensed securities firms with a PRC background in Hong Kong and is specialising in securities brokerage and margin financing, corporate finance and underwriting, asset management and investment, and investment and loans. The Guarantor successfully completed its initial public offering of its shares on the main board of the SEHK on 19 May 2017.

Leveraging BOCOM's long established client base in Hong Kong and the PRC, wide brand recognition and industry expertise, the Group has been able to seize cross-border business opportunities from the stock connect programs and take full advantage of its background as a securities firm within a banking group to provide one-stop financial services for global customers.

In 2019, the Group was assigned a long-term issuer default rating of "A" and a short-term issuer default rating of "F1" by Fitch Ratings ("**Fitch**") with a stable outlook, and a long-term issuer rating of "A3" and a short-term issuer rating of "Prime-2" by Moody's Investors Service ("**Moody's**") with also a stable outlook. In 2020, the Group was reaffirmed "A" and "A3" issuer ratings by Fitch and Moody's, two major international credit rating agencies, respectively, therefore continuing to hold the highest credit ratings among the Chinese securities firms in Hong Kong, which demonstrated the recognition of the Group's robust financial structure and development prospects by the capital market, clients and investors.

For the years ended 31 December 2018, 2019 and 2020, the Group's total revenue and other income was HK$1,484.3 million, HK$1,570.2 million and HK$2,194.8 million, respectively. For the same periods, the Group's profit attributable to its shareholders was HK$407.6 million, HK$500.6 million and HK$843.2 million, respectively. As of 31 December 2018, 2019 and 2020, the Group had total assets of HK$14,461.8 million, HK$18,730.2 million and HK$23,359.9 million, respectively, and total equity of HK$6,274.2 million, HK$6,627.8 million and HK$7,783.9 million, respectively.

The Group's business primarily comprises the following business segments:

- *Securities Brokerage and Margin Financing*: The Group engages in trading of stocks, funds, bonds and futures on behalf of its clients and earn commission and fee income. The Group also engages in margin financing and earn interest income.

- *Corporate Finance and Underwriting*: The Group provides IPO sponsorship and financial advisory, underwriting (equity and debt) and placing services. In return, the Group principally earns sponsor fees, financial advisory fees as well as underwriting and placing commission.

- *Asset Management and Advisory*: The Group provides asset management and advisory services, principally including mutual fund management, specialised asset management and private equity fund management, and earns management and performance fees. In addition, the Group provides investment advisory services in the PRC and Hong Kong, and generate investment advisory fees.

- *Investment and Loans*: The Group invests in equity and fixed income securities and other financial products for its own account to achieve investment income. The Group is also engaged in structured finance and loans business, including pre-IPO investment financing, financing relating to offshore M&As, privatisation, management buyout and other investment banking related businesses as well as provision of loans, which generates interest income. In addition, the Group invests in equity securities of private companies in return for dividend income and gains on disposal at exit.

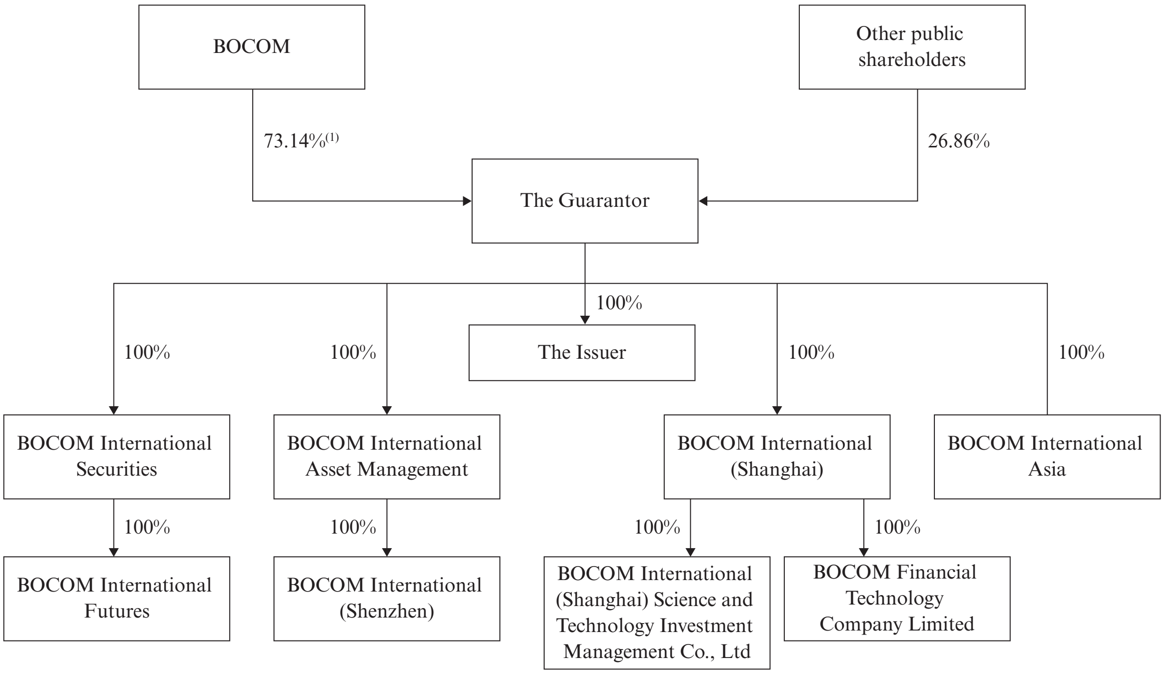
HISTORY AND MILESTONES OF THE GROUP

The following is a summary of the Group's key corporate and business development milestones:

Year	Event
1998	BOCOM Securities Company Limited was established.
2007	The Group underwent a business restructuring and the name of BOCOM Securities Company Limited was changed to BOCOM International Holdings Company Limited. BOCOM International Securities, BOCOM International Asset Management and BOCOM International Asia were established. The Group was licensed to conduct the regulated activities of dealing in securities and futures contracts, advising on corporate finance and asset management.
2008	BOCOM International Securities became a participant of the Futures Exchange and commenced the provision of futures trading services.
2009	BOCOM International Asset Management established its first privately offered fund, BOCOM International Dragon Secular Growth Fund.
2010	The Group set up onshore and offshore direct investment platforms by establishing BOCOM International (Shanghai) and BOCOM International China Fund L.P., its first U.S. dollar private equity fund. The Group established its first retail mutual fund, BOCOM International Dragon Core Growth Fund.
2011	The Group established its first RMB private equity fund in the PRC, BOCOM International (Shanghai) Equity Investment Fund I L.P..
2014	The Group established its first RQFII fund with investment primarily in A shares, BOCOM International China Dynamic Fund.
2016	BOCOM International Futures was established.
2017	The Guarantor completed the initial public offering of its shares on the SEHK.
2018	BOCOM International (Shenzhen) established its first equity investment fund.
2019	The Group was assigned rating of "A" and "A3" by Fitch and Moody's respectively, holding the highest credit ratings among the listed Chinese securities firms in Hong Kong, and established the BOCOM Science and Technology Innovation Equity Investment Fund which is the first bank-affiliated science and technology equity investment fund in China.
2020	BOCOM International (Shanghai) Science and Technology Investment Management Co., Ltd and BOCOM Financial Technology Company Limited were established.

CORPORATE STRUCTURE

The following chart sets forth the simplified corporate structure of the Guarantor and certain major operating subsidiaries as of 31 December 2020:



Note:

(1) As of 31 December 2020, BOCOM holds 73.14% of the Guarantor indirectly through its subsidiaries.

(2) Please refer to page F-56 for the details of the Guarantor's principal subsidiaries as of 31 December 2020.

AWARDS

The Group benefits from its strong equity research capabilities, which have supported all of its business lines and added value to its products and services. During the three years ended 31 December 2020, the Group won various domestic and international major awards in recognition of its outstanding business performance and research capabilities, the most recent of which include the following:

Year	Awards	Organizer/Media
2020	Best Chinese Securities Firm	Hong Kong Tai Kung Wen Wei Media Group
2020	Best Financial Institution of the Year	Zhitong Finance and RoyalFlush Information
2020	"Most Valuable Brand" of the Top 100 Hong Kong Stocks	Top 100 Hong Kong Stocks Research Centre
2020	Best Services of Wealth Management Platform Award	Phoenix
2020	Top Investment Houses in Asian G3 Bonds for 2020: Hong Kong (Highly Commended)	The Asset
2020	Top 5 Best Return Institution of the Year	National Business Daily
2020	Private Equity Institution of the Year	Shanghai United Media Group: Jiemian.com
2020	Innovation Wealth Management Institution of the Year	Shanghai United Media Group: Jiemian.com
2020	Best Venture Capital Institution in Big Data and Corporate Service Industries and Artificial Intelligence Industries	Securities Times
2019	Best China Broker	Bloomberg and the Chinese Asset Management Association of Hong Kong
2019	No. 2 Best Small Caps Award	FinanceAsia
2019	Best Financial Stock Company	Zhitong Finance and RoyalFlush Information
2019	HK Listed Company Most Valuable Brand Award	Gelonghui
2018	The President Award 2018	The Community Chest of Hong Kong
2018	The 12th Jun Ding Award for Wealth Management Institution — Top China Asset Management Brokerage Award	Securities Times
2018	The Listed Enterprise Excellence Awards — Corporate Governance Award 2018	Capital Weekly
2018	Award in Providing Stock Futures Education 2018	SEHK

RECENT DEVELOPMENTS

Impact of the COVID-19 pandemic and the Group's main countermeasures

In 2020, the spread of COVID-19 has had a severe impact on the global economy. China has achieved significant strategic results through coordinated efforts in the prevention and control of the COVID-19 pandemic and in economic and social development, and the domestic economy has resumed to normal. However, the international economic and financial environment remain complex and challenging, and there still exists many uncertainties in the developments of the COVID-19 pandemic in China and the rest of the world. The Group fully supported the prevention and control of the COVID-19 pandemic and the resumption of work and production, vigorously promoted digitalised operations and services, and strove to achieve high-quality development of its businesses.

Please refer to "*Risk Factors — Risks Relating to the Group's Businesses and Industry — Uncertainties and instability in general economic, political and global market conditions could adversely affect the Group's business, financial condition and results of operations*" and "*Risk Factors — Risks Relating to the Group's Businesses and Industry — Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases (such as COVID-19) may materially and adversely affect the Group's business, financial condition and results of operations*".

The Group's main countermeasures in response to the COVID-19 pandemic are as follows:

- taking measures to maintain social distancing;
- minimising face-to-face meetings by using conference calls or video conferences;
- taking measures of work-from-home arrangement and flexible working plans;
- avoiding unnecessary travel and outside meetings;
- taking measures of access control to office with temperature screening;
- taking quarantine measures for employees who had contact with any confirmed case of COVID-19 and imposing the requirement of coronavirus test at the cost of Group; and
- providing face masks, hand sanitisers and other hygiene supplies.

COMPETITIVE STRENGTHS

The key competitive strengths of the Group are as follows:

One-stop platform with comprehensive securities and financial services

The Group provides a one-stop platform of securities and financial services to serve its clients at every stage of their business life cycle and to satisfy investors' various needs. As one of the earliest licensed securities firms with PRC background in Hong Kong, the Group is one of the largest securities firms specialising in securities brokerage and margin financing, corporate finance and underwriting, asset management and advisory and investment and loans businesses. One of the Group's core competitive strengths is its ability to offer comprehensive and integrated financial services and products that fulfill various investment and wealth management needs of its clients. The Group seized cross-border business opportunities from the stock connect programs and took full advantage of its background as a securities firm within a banking group to provide one-stop financial services for its global customers. As an institution that provides comprehensive wealth management and financial services with global influence and market competitiveness in the region, the Group is committed to creating greater value for its customers and shareholders.

The Group is committed to providing high quality securities and financial services through capitalising on the expertise of its professionals in Hong Kong, Shanghai and Beijing. The Group's employees comprise professionals who are familiar with the international capital markets and understand the business culture in the PRC and the business needs of PRC enterprises.

The Group has adopted a flat management structure in its daily operations, which allows more efficient execution, resource allocation and coordination among different business lines. Such management structure can promote a closer relationship between management and employees and has also contributed to the creation of cross-selling opportunities that lead to the synergies among the Group's business lines to better meet its customers' needs.

Strong support from the BOCOM Group

BOCOM, the Group's ultimate controlling shareholder, is one of the state-owned joint stock commercial banks. With its origin traced back to 1908, it is one of the banks with the longest history in the PRC. It is well-known for its market-oriented and internationalised operations as well as proven track record. Its century-old brand can also enhance client confidence and assist the Group with expanding the Group's client base and attracting talent.

As a well-established securities firm in Hong Kong with a PRC background and the only integrated platform for securities and related financial services of BOCOM, the Group has a thorough understanding of the investment needs of customers in both the PRC and Hong Kong. Through the Group's relationship with the BOCOM Group, the Group is able to provide its customers with a one-stop platform for internationalised and comprehensive securities and financial services, thereby creating synergies for the Group. In addition, the Group's diversified services and products have enhanced customers' overall satisfaction and loyalty to the BOCOM Group.

Dedicated corporate finance and underwriting team with outstanding execution capabilities

The Group's corporate finance and underwriting team consists of professionals who are experienced in securities and financial services, and have an in-depth understanding of the PRC business culture and the business needs of PRC enterprises. Capitalising on the extensive experience and global perspective of the Group's dedicated team, the Group is able to provide its clients with high quality securities and financial services. As a sponsor, global coordinator, bookrunner and/or lead manager, the Group participates in a number of capital markets transactions, including IPO sponsorship, secondary market fundraising, and Renminbi, U.S. dollar and Euro denominated bond issues. The Group is one of the most active participants in the Hong Kong capital markets, with an excellent record of successful deal execution and underwriting completion. In 2020, the Group acted as a sponsor for four completed IPO projects and a global coordinator and/or bookrunner for 31 completed IPO projects. In 2019, the Group acted as a sponsor for five completed IPO projects in various industries, including one in the healthcare industry. Among all the completed IPO projects in 2019, the Group acted as the sole sponsor of four projects and acted as a global coordinator and/or bookrunner for 20 completed IPO projects. In 2018, the Group completed two IPO projects as the sole sponsor.

Strong and award-winning securities research team

The Group has a strong securities research team committed to providing independent, reliable value-added analysis and investment strategy advice, which it has leveraged to support its corporate finance and underwriting, securities brokerage and institutional client services.

As of 31 December 2020, the Group's research team comprised more than 30 strategy and industry analysts and professional staff in Hong Kong, Beijing and Shanghai, and has completed 1,182 research reports, covering 15 industries and over 150 stocks across new-economy and traditional sectors, including strategy, banking, non-bank financial, real estate, gaming, leisure, the Internet, technology, consumer staples, consumer discretionary, automobile, transportation, industrials, oil and gas, renewable energy, environmental protection, healthcare and small and mid-cap enterprises.

The Group highly values the significance of providing its clients with outstanding independent research support. Among Chinese securities firms in Hong Kong, the Group's research reports ranked first in terms of the number of unique readers and second in terms of read volume on Bloomberg Terminal in 2020. Due to the impact of the COVID-19 pandemic, the Group has expanded its online client services and developed diversified online roadshow events, and held over 130 online conferences in 2020.

The Group is widely recognised in terms of the depth of its research across various sectors, with a notable reputation in strategy, Internet and healthcare sectors. The Group does not charge its clients for these value-added equity research products. However, in recognition of the Group's research analysts' provision of investment recommendations and data support as well as the quality of the Group's research products, certain global asset managers who are readers of the Group's research reports may reward the Group with discretionary bonuses from time to time. In addition, the Group's securities research team is actively exploring the emerging sectors to capitalise on first-mover advantages.

Fast growing asset management and advisory business

The Group focuses on the development of asset management and advisory business as it is crucial to satisfy the Group's customers' needs for wealth management services and that it has significant growth potential. The Group's asset management and advisory business covers a variety of funds, including mutual funds, specialised asset management funds and private equity funds, covering securities such as stocks and bonds denominated in U.S. dollars, Renminbi, and Hong Kong dollars.

In order to capture the emerging opportunities in the PRC market, the Group established BOCOM International (Shanghai) in 2010, and BOCOM International (Shenzhen) in Qianhai, Shenzhen in 2016 to expand its asset management and advisory business in the PRC. The Group also obtained QFLP in 2015 and QDIE qualifications in 2016 to develop its Renminbi private equity fund management business. The first fund managed by BOCOM International (Shenzhen) completed its private investment fund filing with the Asset Management Association of China on 20 July 2018. In 2019, before the official launch of the Science and Technology Innovation Board or the "STAR Market" by the Shanghai Stock Exchange, the Guarantor's wholly-owned subsidiary in Shanghai engaging in asset management and BOCOM Guo Xin Asset Management Company Limited formed a partnership enterprise named BOCOM Science and Technology Innovation Equity Investment Fund. In 2020, the Group established four new QFLP funds under its asset management platform in Mainland China, among which, Hainan BOCOM International became the first QFLP fund launched in the Hainan Free Trade Port. In addition, the Group offers investment advisory services through BOCOM International (Shanghai), to better serve its clients and maintain and increase their loyalty to the Group. The Group also expects that such services could create synergies within the Group's asset management and advisory business and increase the AUM managed by the Group.

Through continual efforts to expand the Group's customer base, particularly institutional and corporate clients, and to diversify the Group's product offerings, the Group's total amount of AUM reached approximately HK$27,687.8 million as of 31 December 2020, representing an increase of 2% from approximately HK$27,137.9 million as of 31 December 2017.

Healthy leverage and diversified financing sources

The Group maintains good long-term cooperative relationships with many large financial institutions and obtains funds at a competitive interest rate to support the Group's business development. In 2018, 2019 and 2020, the Group's gearing ratio (which is calculated as total borrowings divided by total equity) was 118.3%, 160.7% and 176.0%, respectively. As of 31 December 2020, the Group had bank loans and other borrowings of HK$12,703.5 million while the Group's subordinated loans from its ultimate holding company amounted to HK$1,000.0 million.

The Group also aims to actively expand its financing channels and investor base. The Group has abundant credit lines with over 20 commercial banks. In addition to the funding that the Group raised through its initial public offering on the SEHK in 2017, the Group constantly broadened and diversified its funding channels, such as syndicated loans and revolving loans, to optimize the liability structure.

Prudent and comprehensive risk management and internal control

The Group is committed to establishing an effective and comprehensive risk management system. The Group's risk control system inherits the prudent risk management structure of BOCOM as a commercial bank and is also tailored according to its own business operations and requirements.

The Group established a three-tier risk management framework, comprising (i) the Board, (ii) the Risk Management Committee, along with seven specialised committees, and (iii) the middle and back offices including the Risk Management Department and the Legal and Compliance Department, along with all of its business units. Businesses with higher risks are subject to more stringent scrutiny according to an authorisation hierarchy that the Group has structured. The Group emphasises on inculcating a risk management culture at every level of the Group and achieving a balance between business development and risk management efficiency. The Group also strives to accomplish strict compliance with the relevant risk management rules and procedures in every department through enhancing its corporate governance, internal control and risk management review and other measures.

The Group has been continually improving its ability to identify, prevent and mitigate risks to ensure that its expected returns match its risk profiles. The Group has adopted a risk indicator system, and perform periodic value at risk calculations and stress tests to evaluate its ongoing market risk tolerance indicators. The Group has also devised business continuity and data recovery plans in preparation for unexpected circumstances in its daily operations.

Experienced senior management and a strong professional team

The Group's senior management comprises experienced professionals from diversified backgrounds with an international outlook. They have an in-depth understanding of the capital markets and customers' needs in both Hong Kong and the PRC. As of 31 December 2020, the Group's senior management team had on average over 20 years of experience in securities and finance related industries, and about one third of its Directors held PhD degrees in finance or related areas.

The Group has a strong professional team with a global perspective and strong execution skills.

The Group values the contributions of its employees and pay close attention to their continuing professional development so as to improve its service quality and promote employee loyalty.

BUSINESS STRATEGIES

The Group strives to become a financial services institution with a comprehensive product and service portfolio that serves its clients globally and meets their various needs for securities and financial services. The Group's specific strategies include the following:

Continue to strengthen the Group's principal business lines and attract talented professionals

The Group intends to build on its established brand name, reputation and competitive strengths and continue to enhance its securities brokerage and margin financing, corporate finance and underwriting, and asset management and advisory businesses, through the following measures:

- ***Securities brokerage and margin financing***: The Group plans to attract a wider group of high quality customers and offers more diverse products, such as global stocks, to meet increasingly stronger and diverse customer demand for global asset allocation and management. The Group also intends to upgrade its IT systems to improve customer experience.

- ***Corporate finance and underwriting***: The Group focuses on enhancing its corporate finance capabilities and intends to attract more professionals to expand its sector teams and general financial advisory services. The Group places high importance in enhancing its underwriting (equity and debt) and placing capabilities, including customer development and pricing, to increase the revenue and profit contributions of its corporate finance and underwriting business.

- ***Asset management and advisory***: The Group intends to continue expanding its asset management and advisory business through attracting institutional, corporate clients and high-net-worth customers for its specialised asset management and private equity fund management businesses and enhancing the Group's investment management capabilities. The Group focuses on diversifying the types of asset management schemes to satisfy the wealth management needs of different customers. The Group also intends to enhance its collaboration with other financial institutions, such as fund management companies. In addition, the Group intends to enhance its investment advisory services to create more synergies and cross-selling opportunities within its asset management and advisory business.

- ***Investment and Loans***: The Group aims to achieve a balance between investment returns and tolerable risks. For equity investments, the Group focuses on investing in companies in the innovative technology, biotechnology, healthcare industries and other new economy industries that have clear plans for public listings in Hong Kong, Mainland China or overseas. Some of these target investments are unicorn startup companies, with broad market recognition and strong growth potential. For structured financing, the Group focuses on structured finance of cross-border quality asset and debt-equity hybrid investments in enterprises with high growth potential. For debt investments, the Group prefers short-to-medium duration products with good credit standing and remarkable offshore premium. Based on the Group's investment objectives, it strives to achieve an optimal allocation among equity investments, structured financing and debt investments. In addition, backed by high-quality underlying assets and tailor-made structures, the Group intends to mitigate market risks and strengthen collateral controls.

In addition, a key factor for the Group's future success is the Group's ability to attract and retain core employees. The Group seeks to recruit additional high-calibre talent, both international and local, for positions such as senior management officers, senior marketing personnel and professional investment managers. The Group's market-oriented human resource management and its brand effect will enable the Group to attract and retain a team of highly experienced professionals.

Further develop the Group's "capital-based" businesses and M&A financial advisory business to increase synergies and cross-selling capabilities among the Group's business lines

The Group plans to actively diversify and enhance its existing businesses. The Group intends to enhance the development of its infrastructure to enrich its product portfolio and enlarge its customer base. The Group aims to further develop a suite of "capital-based" businesses and M&A advisory business that are complementary to its principal business lines.

The Group intends to use various funding sources to enhance its working capital for providing margin financing, IPO financing and loans to its customers, for contributing capital to private equity funds, and for making direct equity investments. These "capital-based" businesses are important to meet the Group's clients' diverse needs for securities and financial services and to increase synergies and cross-selling capabilities among its business lines. For example, the Group's margin financing and IPO financing services could encourage customer trading and IPO subscription, and its investment and loans and private equity fund management businesses can create synergies with its

M&A financial advisory business by providing its M&A customers with a variety of flexible financing options, including medium- and long-term M&A loans, bridge loans, and direct equity investments.

The Group formed a dedicated M&A financial advisory team in June 2016 which focuses on servicing outbound investments by PRC companies. The Group actively capitalises on its unique geographical advantage in Hong Kong to help PRC customers explore high quality overseas targets and execute transactions by offering comprehensive advisory services.

The Group's direct investment team plans to focus on investing in selected target companies in the Internet and technology sectors. The Group's selected target companies include those prominent Internet platforms, notable start-up companies, leading industry players and companies that focus on future technologies and possess the ability to shape technological revolutions.

Enhance the Group's business platform and expand its business

The Group plans to leverage BOCOM's branches, cooperate with local partners and enhance the collaboration between its asset management and advisory businesses. The Group expects that such initiative could improve its financial service capabilities and attract high-net-worth clients who have asset allocation needs.

Meanwhile, the Group plans to take advantage of the Silk Road Economic Belt and the 21st-century Maritime Silk Road (the "**Belt and Road Initiatives**") policy, seize business opportunities arising from such internationalisation of the PRC economy and assist PRC enterprises with investing overseas. The Group also plans to continue to leverage the strong brand name and industry expertise of BOCOM to further enhance the synergies between the Group and the BOCOM Group, while focusing on optimal capital allocation.

Enhance the Group's risk management system, internal control and IT capabilities

The Group plans to continue to enhance the transparency and its management over investment, financial condition and business operations. The Group is committed to strict risk control and continual improvement of its risk bearing abilities for the long-term stable development of its business. The Group also plans to further strengthen its internal control system, enhance the Chinese walls between the Group's different business lines, and improve its internal control compliance and audit capabilities.

In addition, the Group plans to establish an information sharing platform that collectively manages client data, business information and risk management knowledge so as to promote the integration of its business development and risk management. The Group intends to upgrade its middle and back office infrastructure to increase the security and efficiency of its IT systems.

BUSINESS ACTIVITIES

The Group provides comprehensive and integrated securities and financial services to its clients to satisfy their various needs. The Group's principal business lines comprise securities brokerage and margin financing, corporate finance and underwriting, asset management and advisory and investment and loans.

The table below sets forth the Group's revenue and other income by business line and the respective contribution to the Group's total revenue and other income for the years indicated:

	Year ended 31 December					
	2018		2019		2020	
	HK$ in millions, except percentages					
Securities brokerage and margin financing	603.8	40.7%	367.0	23.4%	391.6	17.8%
Corporate finance and underwriting	59.9	4.0%	120.1	7.6%	130.4	5.9%
Asset management and advisory	82.0	5.5%	127.2	8.1%	106.4	4.8%
Investment and loans	690.9	46.6%	859.2	54.7%	1,501.6	68.5%
Others	47.7	3.2%	96.7	6.2%	64.8	3.0%
Total	**1,484.3**	**100.0%**	**1,570.2**	**100.0%**	**2,194.8**	**100.0%**

Securities Brokerage and Margin Financing

The Group's securities brokerage and margin financing business covers the following activities:

- *Securities brokerage*: the Group executes trades on behalf of its clients in stocks, bonds, futures, options and other tradable securities; and

- *Margin financing*: the Group offers margin financing services to provide leverage for clients' securities transactions.

For the years ended 31 December 2018, 2019 and 2020, segment revenue and other income from the Group's securities brokerage and margin financing business amounted to HK$603.8 million, HK$367.0 million and HK$391.6 million, respectively, representing 40.7%, 23.4% and 17.8% of the Group's total revenue and other income, respectively.

Securities Brokerage

The Group engages in the trading of various securities products on behalf of its customers, with a primary focus on stocks of listed companies on the Stock Exchange, along with 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, U.S. stocks and bonds such as treasury bonds, corporate bonds and convertible 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.

The following table sets forth a breakdown of the commission by product types of the Group's securities brokerage business for the years indicated:

	Year ended 31 December					
	2018		2019		2020	
	HK$ in millions, except percentages					
Hong Kong Stocks[(1)]	132.0	79.7%	87.7	74.1%	136.4	75.4%
Non-Hong Kong stocks	10.2	6.2%	7.7	6.5%	21.4	11.8%
Bonds	7.2	4.3%	8.1	6.8%	8.0	4.4%
Others	16.2	9.8%	14.9	12.6%	15.1	8.4%
Total	**165.6**	**100.0%**	**118.4**	**100.0%**	**180.9**	**100.0%**

Note:

(1) Hong Kong Stocks refers to stocks listed on the Stock Exchange.

The Group generates commission and fee income from executing trades for clients in its securities brokerage business. The Group takes into account various factors concerning each of the clients in determining its commission rate, such as trading volume, fund deposited and business potential with the clients on a case-by-case basis. For the years ended 31 December 2018, 2019 and 2020, the Group's revenue and other income from the Group's securities brokerage business was HK$186.3 million, HK$138.4 million and HK$197.8 million, respectively.

At the launch of the Shanghai-Hong Kong Stock Connect in November 2014, the Group became qualified to participate in the northbound trading business via the northbound Trading Link. Since then, the Group has been able to place orders to trade eligible shares listed on the Shanghai Stock Exchange. The Shenzhen-Hong Kong Stock Connect, launched on 5 December 2016, allowed the Group access to additional northbound trading securities brokerage business and the ability to trade eligible shares listed on the Shenzhen Stock Exchange. The Group is also able to provide brokerage services to its clients for the trading of B shares and U.S. stocks and stocks listed on other stock exchanges at the Group's trading platform on which the Group places orders through third-party dealers, in order to attract and retain clients that demand a more diverse portfolio of securities for trading.

The Group also provides futures brokerage services to its customers for trading in futures on the Futures Exchange. The Group possesses a futures trading platform that enables it to connect to all major futures exchanges around the globe. The Group is a member of the Hong Kong Futures Exchange. The futures contract products the Group can trade include Hang Seng Index futures, mini-Hang Seng Index futures and options, H-shares index futures and options, mini H-shares index futures and options, and stock futures.

Facing the challenges driven by digital finance, the Group keeps accelerating digital transformation and has continuously devoted considerable resources to iteratively update its digital and intelligent services, including online global trading platform, data management, cyber security and market monitoring systems. For instance, the Group has further explored the personalised search and data display function in multi-dimensions based on its digitalised report systems to the frontline sales on a realtime basis and strived to improve customer management efficiency and achieve precise marketing. In 2019, the Group reinforced IT implementation via the commitment of resources and achieved significant results. In the first half of 2019, the Group successfully launched two-factor authentication application to further enhance cyber security. In the second half of 2019, the Group rolled-out the "BOCOMI Services App" with the aim of providing customers with more convenient and comprehensive information and account management services. The deployment of an artificial intelligence system and continuous improvements to the Group's online trading platform have enabled it to provide customers with around-the-clock service.

The Group's well-experienced wealth management team is dedicated to, on the one hand, providing tailor-made solutions to meet clients' needs, and, on the other hand, promoting popular financial products to grasp the market pulse for increasing customer activity and optimising customer, product and revenue structures. Assisted by the power of technology, the Group perseveringly strived to improve client experience across each stage of the value chain, including client account opening, customisation of investment advice, research report distribution, middle and back office processes and deal completion. In 2020, based on the Group's prediction of IPO market trends, the Group has aggressively expanded the IPO financing business, and the financing scale and the number of IPO orders both increased multiple times, and IPO commission income increased by more than 50%, on a year-on-year basis. In addition, with the rapid expansion of IPO financing, the Group has successfully developed "Brokers' Broker" business with small and medium-sized brokerage firms, a cooperative growth model with leading brokerage firms designing and building a complete and comprehensive product platform and uniting and supporting peer companies to grow together. Through unceasingly exploring new service and cooperation models such as "Brokers' Broker", "Stock-Bond Portfolio Financing", interactive live webcast series, BOCOMI service apps and "Xingu Bao", the Group continues to foster its differentiated competitive advantage and creativity to provide customers with diversified premium cross-border wealth management services and products.

Margin Financing

The Group offers collateralised financing through its margin financing services to retail, corporate and high-net worth customers who wish to finance their securities purchases. These services enable such customers to increase the size of their purchases through financial leverage. Margin financing business is capital-intensive and involves credit risk. See "*Risk Factors — Risks Relating to the Group's Businesses and Industry — The Group may suffer significant losses from its credit risk exposures in its margin financing business*". 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, the Group has adopted structural adjustments to improve the margin financing risk management. See "*Description of the Group — Risk Management and Internal Control*" for more details of the Group's risk management measures.

The Group generates interest income from margin loans lent to its customers in its margin financing business. As of the date of this Offering Circular, the interest rates the Group currently charges for its margin loans range from 3.5% to 11.0% per annum. A higher interest rate applies to the amount of a client's outstanding margin loan balance which exceeds the margin value. For the years ended 31 December 2018, 2019 and 2020, the Group's revenue and other income from the Group's margin financing business was HK$417.5 million, HK$228.6 million and HK$193.8 million, respectively.

The following table sets forth a summary of key operating and financial information of the Group's margin financing business in Hong Kong as of the dates or for the years indicated:

	As of or for the year ended 31 December		
	2018	**2019**	**2020**
Number of margin accounts	7,961	8,254	8,989
Balance of gross margin loans *(HK$ in millions)*	4,009.0	2,774.9	2,881.8
Monthly average balance	5,950.6	3,421.9	2,669.4
Highest month end balance	6,640.8	3,814.3	2,881.8
Lowest month end balance	4.009.0	2,658.2	2,434.4
Margin value(1) *(HK$ in millions)*	3,871.0	2,789.8	3,475.6
Market value(2) *(HK$ in millions)*	17,349.0	11,563.5	10,272.1

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.

The Group carries out due diligence procedures and other risk control measures for different clients based on their risk classifications. The Group complies with the "Know Your Clients" principles and undertake steps for, and the continual review of, client identification.

The Group generally requires its margin financing customers to provide collateral in the form of equity securities listed on the Stock Exchange. The Group determines the credit limit of its customers based on various factors, including, but not limited to, the total value of assets in the relevant customers' accounts with the Group as well as their background, annual income, trading patterns and credit history. In addition, the Group proactively manages its customer concentration risks exposed to by its margin financing business primarily through collateral and credit risk management of its customers. The Group also considers the quality of the underlying collateral. The Group closely monitors the loan-to-value ratio on a real-time basis of high-risk accounts. In general, the Group closely monitors the margin loans and may require additional collateral, taking into consideration factors such as the loan-to-value ratio, the loan-to-margin ratio, the customer's background, the interest rate of the loan and market conditions. Forced liquidation actions of the client's margin account may be suspended or postponed upon internal approval.

Additionally, the Group provides short-term IPO financing to facilitate its clients to subscribe for a greater number of IPO shares. IPO financing clients that apply for this financing service are required to maintain sufficient cash in their accounts, or provide sufficient collateral subject to its approval, on the day that the applications for IPO share subscription end.

Customers

The Group provides brokerage services to a wide range of retail, institutional and corporate clients. The Group's customer due diligence process was established in accordance with the relevant SFC guidance, and the Group applies the same process to its customers before commencing business relations with them. The Group has developed a comprehensive set of "Know Your Clients" due diligence and evaluation procedures based on different clients' risk classifications. The Group refers to data or information provided by reliable and independent sources in identifying its clients or their parties in control. See "*Description of the Group — Risk Management and Internal Control — Anti-Money Laundering*".

Sales and Marketing

The Group's clients can access its brokerage services through its online trading platform and its Central and Tsim Sha Tsui branches. They can place trade orders via telephone with the Group as well. In addition, the Group provides standardised financial products and services to its clients through its PC and mobile wealth management platforms. The Group's online trading platform is capable of offering a variety of services, including securities trading, account management and real-time market information updates. The Group makes available financial products to its clients via its online platform, consisting of (i) Hong Kong stocks, (ii) PRC stocks through the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, (iii) other stocks listed on major stock exchanges around the globe, and (iv) futures and options, including commodity futures, index futures and currency futures. Additionally, the Group offers face-to-face brokerage services to its clients through its in-house and self-employed account executives at its Central and Tsim Sha Tsui branches.

Institutional Sales

The Group provides its institutional clients, such as private funds, mutual funds and insurance companies, with its specialised institutional client trading system with one-stop sales and trading services. The Group also provides research reports on investment strategies and market trends to its institutional clients. In particular, for institutional clients using its underwriting services, the Group pays on-site visits, assist with non-deal road shows and investor conferences, and conduct periodic research visits.

Corporate Finance and Underwriting

The Group provides one-stop corporate finance and underwriting solutions to its corporate clients under its corporate finance and underwriting business, including IPO sponsorship and financial advisory, underwriting (equity and debt), M&A, pre-IPO financing, financial advisory and placing services. The Group is committed to offering customised corporate finance and underwriting services for corporate clients and to satisfy their various needs such as financing, investment and M&A, throughout their entire development stages.

As a comprehensive capital market service provider, by offering a wide range of financing alternatives and related services to its corporate finance and underwriting clients, the Group's corporate finance and underwriting business has facilitated some of its other businesses, such as direct equity investment as well as structured finance and loans in its investment and loans business, specialised asset management and private equity fund management in its asset management and advisory business. The corporate finance and underwriting business has also introduced clients and created business for the Group's securities brokerage and margin financing business. Meanwhile, the Group's corporate finance and underwriting business benefits from referrals of prospective clients from its securities brokerage, investment and loans as well as asset management and advisory businesses. This has created cross-selling synergies across different business lines and enhanced client loyalty.

For the years ended 31 December 2018, 2019 and 2020, the Group's revenue and other income from the Group's corporate finance and underwriting business was HK$59.9 million, HK$120.1 million and HK$130.4 million, respectively, representing 4.0%, 7.6% and 5.9% of the Group's total revenue and other income, respectively.

Equity Underwriting and Placing

The Group provides equity underwriting services in IPO transactions and equity placement. For its equity underwriting services, the Group receives underwriting fees generally based on a percentage of the amount of equity securities underwritten by it. The Group also acts as a placing agent for placement of equity securities listed on the Stock Exchange in the secondary market. The Group is committed to fostering its IPO sponsorship business to become its core competitive strength of its corporate finance and underwriting business. The key sources of the Group's revenue on equity capital markets transactions are sponsor fees and underwriting fees. Sponsor fees on such transactions are in line with market standard, while IPO underwriting fees depend on the amount of the offering, the size of the IPO, the underwriting contributions and scope of role.

The Group primarily focuses on the relatively more established PRC and Hong Kong companies qualified for listing on the Main Board of the Stock Exchange, especially the companies with which it can build long-term relationships for future business opportunities. The Group also considers opportunities with companies from other countries, in light of the increasing standing of the Stock Exchange in the global market. In view that new economy will play a dominant role in the fund-raising market, the Group has devoted more resources in building up execution teams specialising in the technology, media and telecommunications, healthcare and biotechnology industries in order to capture the business opportunities of a new era.

The Group pursues IPO sponsorship opportunities through its own network as well as from the BOCOM Group. The Group also actively explores its clients' financing and other needs during and after IPO transactions, creating additional business opportunities accordingly. In 2020, the Group acted as a sponsor for four completed IPO projects and a global coordinator and/or bookrunner for 31 completed IPO projects. In 2019, the Group acted as a sponsor for five completed IPO projects in various industries, including one in the healthcare industry. Among all the completed IPO projects in 2019, the Group acted as the sole sponsor of four projects and acted as a global coordinator and/or bookrunner for 20 completed IPO projects. In 2018, the Group completed two IPO projects as the sole sponsor.

Debt Underwriting

The Group provides underwriting services for a wide range of debt securities. The Group leverages its in-depth knowledge of the market environment, strong debt execution of capital markets deals and sales capabilities. The Group determines the fee rates on a case-by-case basis, partly depending on the type of debt securities offered, and the Group takes into consideration comparable market fee rates, fundraising size and market conditions. The Group also benefits from referrals of PRC clients from BOCOM branches for potential debt issuance opportunities.

In 2020, the Group completed 63 debt issuance projects and successfully assisted corporations in raising approximately US$25.9 billion in aggregate. In 2019, the Group completed 73 debt issuance projects, and successfully assisted its clients in raising approximately US$29.3 billion in aggregate. In 2018, the Group completed 38 equity securities underwriting and debt issuance projects, successfully assisted corporations in raising approximately US$13.1 billion in aggregate.

Financial Advisory

The Group's financial advisory business covers a broad range of services including general financial advisory services, local or cross border M&A advisory services, and debt and equity capital raising advisory services. The Group also provides compliance advisory services to listed companies in Hong Kong on compliance with the Listing Rules or other compulsory requirements as directed by the Stock Exchange.

Revenue from the Group's financial advisory service business is generated primarily from financial advisory fees. The fees on such transactions will depend on the complexity and size of the transaction and are typically expressed as a percentage of the transaction price.

Asset Management and Advisory

The Group provides comprehensive asset management and advisory services to its clients. The Group offers a full range of asset management products including both public and private funds, discretionary management accounts, as well as investment advisory services. In addition to Hong Kong, the Group also provides asset management services in Mainland China via BOCOM International (Shanghai) in Shanghai and BOCOM International (Shenzhen) in Qianhai, Shenzhen. The Group provides comprehensive investment solutions and high-quality services to individual investors and institutional clients. In addition to traditional investments, the Group also offers alternative investments to investors. The Group has built up a cross-border asset management platform through its presence in Hong Kong, Shanghai and Shenzhen to grasp the distinct sources of investment growth in Mainland China.

The Group's asset management and advisory business comprises mutual fund management, specialised asset management, private equity fund management and investment advisory, and the Group collects management fees, performance fees (if applicable) and advisory fees for its products and services.

For the years ended 31 December 2018, 2019 and 2020, the Group's revenue and other income from the Group's asset management and advisory business was HK$82.0 million, HK$127.2 million and HK$106.4 million, respectively, representing 5.5%, 8.1% and 4.8% of the Group's total revenue and other income, respectively.

The first fund managed by BOCOM International (Shenzhen) completed its private investment fund filing with the Asset Management Association of China on 20 July 2018. In 2019, before the official launch of the Science and Technology Innovation Board or the "STAR Market" by the Shanghai Stock Exchange, the Guarantor's wholly-owned subsidiary in Shanghai engaging in asset management and BOCOM Guo Xin Asset Management Company Limited formed a partnership enterprise named BOCOM Science and Technology Innovation Equity Investment Fund, the investments under which cover cloud computing, big data and bio-pharmaceutical industries, which are key industries of the STAR Market. In 2020, the investment return of a mutual fund under the Group's management ranked first among the 66 peers in Hong Kong market according to Bloomberg data. With a focus on investing in artificial intelligence, new materials, bio-pharmaceuticals and next-generation information technology, the Group also provides integrated financial services to investors, including but not limited to the sourcing of investments, project structuring, full value chain financing and tax arrangements. BOCOM Science and Technology Innovation Equity Investment Fund, which was established under the Group's Shanghai asset management platform, is the first bank-affiliated science and technology equity investment fund in China, with underlying investments aiming to be listed on the Science and Technology Innovation

Board (the "**STAR Market**"). The Group serves 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 of 31 December 2020, BOCOM Science and Technology Innovation Equity Investment Fund has completed 14 equity investment projects, of which 4 are ready to be listed on the STAR Market in the near future. BOCOM Science and Technology Innovation Equity Investment Fund has almost completed its investment target, mainly distributed in the Yangtze River Delta region, focusing on the fields of biomedicine and information technology.

To further improve business influence, acting as fund manager, the Group has also set up Nanjing BOCOM Suyan & SOHO in Jiangsu, BOCOM Dingji Science and Technology Innovation Equity Investment Fund in Guangdong, Qingdao BOCOM Haikong in Shandong, Jiaxing Hengsheng Equity Investment Fund in Zhejiang and Dong Feng BOCOM Yuan Jing Auto Industry Equity Investment Fund in Hubei. In August 2020, BOCOM International (Shanghai) Science and Technology Investment Management Co., Ltd.* (交銀國際(上海)科創投資管理有限公司) was incorporated through BOCOM International (Shanghai), a subsidiary of the Group, so as to further the Group's private equity fund business development in Mainland China.

In 2020, the Group established four new QFLP funds under its asset management platform in Mainland China, among which, Hainan BOCOM International became the first QFLP fund launched in the Hainan Free Trade Port, opening up a new channel to facilitate cross-border investment and financing in Hainan. The Shenzhen asset management platform has preliminarily established the cross-border fund product layout featuring QFLP/QDIE funds, which further complements the Group's cross-border asset management platform for all asset classes.

As of 31 December 2020, the total amount of AUM was approximately HK$27,687.8 million, representing an increase of 0.9% from HK$27,437.4 million as of 31 December 2019. For the year ended 31 December 2020, asset management and advisory fee income decreased by HK$23.9 million or 19.0% to HK$102.0 million, which comprised of management fee income of HK$65.7 million and advisory fee income of HK$36.3 million. As of 31 December 2019, the total amount of the Group's AUM was approximately HK$27,437.4 million, representing an increase of approximately 10.6% from HK$24,810.9 million as of 31 December 2018. For the year ended 31 December 2019, asset management and advisory fee income was approximately HK$125.9 million which comprised of management fee income of HK$59.3 million and advisory fee income of HK$66.6 million. As of 31 December 2018, the total amount of AUM was approximately HK$24,810.9 million, representing a decrease of approximately 8.6% from HK$27,137.9 million as of 31 December 2017. For the year ended 31 December 2018, asset management and advisory fee income was approximately HK$82.1 million which comprised of management fee income of HK$72.8 million and advisory fee income of HK$9.3 million.

Investment and Loans

The Group's investment and loans business comprise of (i) equity and fixed income investment, (ii) direct equity investment and (iii) structured finance and loans. Based on the Group's investment objectives, it aims to achieve an optimal allocation and balance between investment returns and tolerable risks.

For equity investments, the Group focuses on investing in companies in the innovative technology, biotechnology, healthcare industries and other new economy industries that have clear plans for public listings in Hong Kong, Mainland China or overseas. Some of these target investments are unicorn start-up companies, with broad market recognition and strong growth potential. For debt investments, the Group prefers short-to-medium duration products with good credit standing and remarkable offshore premium. For structured financing, the Group focuses on structured finance of cross-border quality asset and debt-equity hybrid investments in enterprises with high growth potential.

For the years ended 31 December 2018, 2019 and 2020, the Group's revenue and other income from the Group's investment and loan business was HK$690.9 million, HK$859.2 million and HK$1,501.6 million, respectively, representing 46.6%, 54.7% and 68.5% of the Group's total revenue and other income, respectively.

Equity and Fixed Income Investment

The Group invests in equity and fixed income securities as well as public and private funds on a proprietary basis and adopts a prudent and well-considered investment approach that aims to achieve a balance between mitigating risk and obtaining investment returns. The Group performs comprehensive analysis, develop unique perspectives and invests in a broad spectrum of securities.

In light of recent turbulence in the global capital markets and macroeconomic factors, the Group is currently focusing on fixed income securities as part of its overall investment strategy. The Group aims to achieve stable interest income through a portfolio of fixed income securities, including, but not limited to, investment grade bonds, high yield bonds and preference shares. The Group focuses on a thorough analysis of each fixed income security, assesses the relevant industry landscape, issuer background, credit fundamentals, capital structure, currency and credit ratings, and evaluates the overall risk-adjusted returns before making an investment decision. In pursuit of stable returns, the Group also seeks investment opportunities in high quality equity investments. The Group selects equity securities based on its macroeconomic research, market cycle analysis, understanding of the target industries, and in-depth analysis of target companies. The Group prefers the "buy-and-hold" approach as its investment strategy, but maintains flexibility in adjusting its investment strategy based on market trends and conditions. Backed by high-quality underlying assets and tailor-made structures, the Group has managed to mitigate market risks and strengthen collateral controls in relation to its equity and fixed income investments.

Direct Equity Investment

The Group makes direct equity investments in private companies and exits such investments through IPOs or share sales for its own account. As part of the Group's direct equity investment strategy, the Group focuses on investing in companies in the innovative technology, biotechnology, healthcare industries and other new economy industries that have clear plans for public listings in Hong Kong, Mainland China or overseas. The Group generally prefers to invest in and hold shares of companies with a sound financial track record and strong industrial influences. The Group also participates in private placements of emerging companies with a sound financial track record and relatively high growth potential. The Group adopts a prudent risk management approach with regard to equity investments. Major forms of investment instruments employed in the Group's equity investment transactions include convertible preferred shares, warrants or convertible debentures. The Group focuses on PRC companies or companies with a PRC background. Nevertheless, the Group is also monitoring investment opportunities in companies with high growth potential in Europe and the United States.

In Hong Kong, the Group operates its direct equity investment business through the Guarantor. In the PRC, the Group conducts direct equity investment business through BOCOM International (Shanghai) and its subsidiaries. The Group focuses on industries such as public welfare, culture, infrastructure, high-end manufacturing and human resources outsourcing services.

The table below sets forth the Group's investment position by asset types for its equity and fixed income investment business:

	As of 31 December					
	2018		2019		2020	
	(HK$ in millions, except percentages)					
Fixed income securities . . .	3,699.5	57.0%	8,591.1	75.9%	10,292.7	79.7%
— Bonds	1,750.7	27.0%	6,545.2	57.8%	8,609.3	66.7%
— Preference shares	1,891.4	29.1%	1,992.5	17.6%	1,683.4	13.0%
— REIT(s).	57.4	0.9%	53.4	0.5%	—	—
Equity investments	159.2	2.4%	179.6	1.6%	453.2	3.5%
Equity-linked loan	440.3	6.8%	443.1	3.9%	—	—
Funds	2192.3	33.8%	2,106.0	18.6%	2,176.8	16.8%
Total	**6,491.3**	**100.0%**	**11,319.8**	**100.0%**	**8,105.2**	**100.0%**

The Group closely monitors its risk management performance with regard to various risk appetite indicators, such as value at risk and stop-loss limits, for its equity and fixed income investment business. The Group tracks the risk levels and performance of its investment portfolio, and pay attention to changes to the credit ratings and price fluctuations of the relevant fixed income or equity securities within the portfolio.

Structured Finance and Loans

The Group provides structured finance and loans business to enterprises at different stages for their various financing needs, including, but not limited to, pre-IPO financing, financing relating to offshore M&As, privatisation and management buy-outs, and other investment banking related businesses. The Group also provides loans to its customers. The Group generates interest income from such financing products.

Despite the volatility of the fixed income market in recent years, the Group's structured finance and loans portfolio remained comparatively resilient during the market turmoil. For the year ended 31 December 2020, interest income from loans and advances, receivables from structured financing and financial assets at fair value through other comprehensive income was HK$481.2 million, representing an increase of approximately 52.0% as compared to HK$316.5 million in 2019. Proprietary trading income was HK$987.5 million, an increase of HK$480.0 million or 94.6% as compared to HK$507.5 million in 2019. For the year ended 31 December 2019, interest income from loans and advances was HK$92.7 million, representing an increase of approximately 16.5% as compared to HK$79.6 million in 2018. Proprietary trading income was HK$507.5 million which represented a decrease of approximately 13.6% from HK$587.5 million in 2018. For the year ended 31 December 2018, interest income from loans and advances was HK$79.6 million, representing a substantial increase of approximately 121.3% as compared to HK$36.0 million in 2017. Proprietary trading income was HK$587.5 million which represented a significant increase of approximately 62.7% from HK$361.1 million in 2017.

Others

For the years ended 31 December 2018, 2019 and 2020, the Group also generated income from its own deposits and other income and gains, such as exchange gains and wage subsidies under the Employment Support Scheme launched by the HKSAR Government in 2020. For the years ended 31 December 2018, 2019 and 2020, the Group had other income of HK$86.4 million, HK$153.2 million and HK$118.9 million, respectively.

Research

The Group's strong research capability is one of the Group's core competitive strengths. The Group has committed considerable resources to developing an industry-leading position for its investment research services.

The Group's research department values and emphasises independence in preparing research reports and provides thorough research on equity markets, primarily shares listed on the Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, as well as the PRC companies listed in the U.S. market. The Group's strong analysis and research capabilities and overall service capabilities have enabled the Group to attract many of its clients, especially institutional clients.

The Group strives to deliver valuable and timely investment strategies advice to its clients through its value-added periodic equity research products. The Group's clients mainly comprise institutional clients and corporate clients, while the Group also serves certain retail clients considered as its strategic clients. The Group's research team makes available research reports and updates to its clients regularly in order to assist them with identifying and evaluating investment opportunities. The Group's periodic equity research products include primarily daily morning focus reports, comment notes concerning individual stocks or sectors, in-depth company or sector analysis, strategy reports, semi-annual strategic updates, and annual outlook reports, all of which are generated under its systematic and disciplined analysis and research methodologies.

The Group provides equity research coverage through the following seven groups:

- the macro-strategy group, which provides views on stock markets and key macro events;
- the telecommunications, media and technology research group, which primarily focuses on the Internet, technology, media and telecommunications sectors;
- the consumer research group, which conducts research on both the consumer staples and discretionary sectors;
- the financial research group, which covers banks, insurers, securities firms, online lenders, asset management companies and other financial institutions;
- the real estate research group, which focuses on property development and property management;
- the infrastructure, utilities and transportation research group, which concentrates on the transportation, environmental protection, new material, renewable energy, oil and gas, and automobile industries, as well as the Belt and Road Initiative related entities; and
- the healthcare research group, which researches the healthcare, pharmaceutical and biotech sectors.

The Group prudently expands the scope of research and strategically increase the variety of research products it delivers in accordance with market conditions, while maintaining its advantages in the existing coverage. The Group also pays great attention to the continual growth of its research force and pioneer into insufficiently researched emerging sectors for first-mover advantage after careful evaluation of market movements.

As of 31 December 2020, the Group's research team comprised more than 30 strategy and industry analysts and professional staff in Hong Kong, Beijing and Shanghai. In 2020, the Group's research team further strengthened its strategic transformation to support the Group's business, and continued to deep dive in the development direction of emerging industries and the new economy. The Group's research team collaborated with the Group's internal research functions to conduct in-depth research on industries that meet national strategies and market needs. At the same time, the Group's research team also collaborated with the Guarantor's investment teams and risk departments to provide valuation and risk prediction for projects, striving to achieve optimal returns on investment projects under the principle of ensuring that risks are controllable.

In 2020, the research team completed 1,182 research reports covering 15 industries and over 150 stocks across new-economy and traditional sectors, representing a 7% increase as compared to 2019. A total of 58 in-depth research reports were published in 2020, including genres such as quantitative strategy, specific focus topics and first coverage. Among Chinese securities firms in Hong Kong, the Group's research reports ranked first in terms of the number of unique readers and second in terms of read volume on Bloomberg Terminal. Due to the impact of the COVID-19 pandemic, the Group's research team has expanded its online client services and developed diversified online roadshow events, and held over 130 online conferences.

In terms of product type, the Group introduced the Shanghai-Hong Kong Stock Connect-related research reports in 2014 and individual A share analysis in 2016. In 2020, the Group focused on macro strategy research publications, which included a series of reports on macro view of industries and quantitative research, providing unique insights for the market. The Group's sector research team also focused on new economy, new technology, medical and health industries as key development directions, vigorously developed in-depth research on new industry themes, and established a "new frontier research centre", emphasising the output of cross-industry research perspectives, and covering market hotspots.

The Group does not directly charge its clients for these value-added equity research products. However, in recognition of the Group's research analysts' provision of investment recommendations and data support as well as the quality of its research products, certain global asset managers who are readers of the Group's research reports have rewarded the Group with discretionary bonuses based on a voting selection process among the members of their respective broker panels. Meanwhile, the Group's research department has supported and created value for its businesses through a variety of ways, such as (i) offering views on the secondary market and analysis of individual stocks to the Group's securities brokerage business in response to its clients' queries, (ii) hosting non-deal road shows for institutional clients, (iii) providing industry overviews, conducting research on companies, conducting valuation models and drafting research reports for IPO projects of the Group's corporate finance and underwriting business, (iv) meeting institutional clients hosted by the Group's institutional sales department to market its research products, thereby enhancing visibility of the Group's brand and services, and (v) researching and investigating for certain projects of the Group's investment and loans and asset management and advisory businesses.

INFORMATION TECHNOLOGY

The Group has the following principal IT systems and platforms for its business operations, risk controls and management purposes:

- *Online account opening system*: an online system that accepts brokerage and futures account opening requests from potential customers;

- *Online trading platforms*: various trading platforms for its retail and institutional clients; and

- *Post-trade monitoring system*: a system that provides cross-market and cross-asset class surveillance of daily trading transactions and generates reports on relevant suspected issues to compliance staff for investigation and resolution.

The Group devotes considerable resources to optimising and upgrading its IT systems, and continually review its IT infrastructure. The Group's Information Technology Planning Committee under its Risk Management Committee is mainly in charge of the management of operational risk of the Group's IT systems to ensure the continuity of the Group's business, whose primary responsibilities include (i) developing long-term IT infrastructure strategies; and (ii) reviewing matters such as purchase, assessments and upgrades relating to the Group's IT infrastructure. The Group also assigns primary and secondary support staff to each of its IT systems.

MAJOR CLIENTS AND SUPPLIERS

The Group serves a diverse set of institutional and individual clients across a spectrum of sectors. The Group's clients are primarily located in the greater China, which include the People's Republic of China, Hong Kong, Macau and Taiwan. The Group expects to serve more overseas clients as it seeks to further expand its business internationally in the future. See "*Description of the Group — Business Strategies*". During the three years ended 31 December 2020 and up to the date of this Offering Circular, the revenue attributable to the Group's five largest customers accounted for less than 30% of its total revenue.

The Group has no major supplier due to the nature of its business.

COMPETITION

There are primarily three types of market players in the Hong Kong securities industry, namely international investment banks, securities companies with a PRC background and local securities companies. As the Hong Kong securities industry develops and its connections with the PRC market increase continually, these market players each compete for a larger market share. The Group's main competitors are securities firms with a PRC background, as these securities firms tend to have similar client networks and products and services to those of the Group.

The Hong Kong securities industry is highly regulated, and securities firms are subject to extensive regulatory requirements on various aspects, including the scope of product offerings, business development and risk control. Competition in the Hong Kong securities industry has been, and is likely to remain, intense. In particular, for the Group's securities brokerage and margin financing business, the Group competes primarily with other licensed securities firms in terms of brokerage commission rates, quality of service, asset safety, range of products and services offered, margin loan interest rates, maturity, flexibility in repayment and value-added services. For the Group's corporate finance and underwriting business, the Group competes primarily with other Hong Kong securities firms in terms of brand recognition, product portfolio, marketing and distribution capabilities, service quality and pricing. For the Group's direct equity investment business of the investment and loans business, the Group competes primarily with other Hong Kong and PRC securities firms qualified to conduct direct investment business and private equity firms in Hong Kong and the PRC, in terms of pricing, strategy, terms offered and service quality. For the Group's asset management and advisory business, the Group competes primarily with fund management and asset management companies in terms of portfolio performance, management fees rates, brand name and the ability to invest in sound investment targets.

Some of the Group's competitors may possess certain competitive advantages over the Group, such as greater financial resources, lower financing costs, stronger brand recognition, wider geographical coverage, more extensive client networks, higher risk tolerance and more advanced IT systems. In addition, more competitors may seek to enter the market or expand their businesses. See "*Risk Factors — Risks Relating to the Group's Businesses and Industry — If the Group is unable to compete effectively in the highly competitive financial services industry, the Group's business and prospects may be materially and adversely affected*".

INTELLECTUAL PROPERTY

As of the date of this Offering Circular, the Group has registered and updated eight domain names and three trademarks in Hong Kong and PRC. The Group has not been subject to any material infringement of its intellectual property rights or allegations of infringement by third parties during the three years ended 31 December 2020 and up to the date of this Offering Circular.

INSURANCE

The Group maintains insurance coverage for its regulated activities for loss of client assets due to theft by employees or other fraudulent acts as stipulated in the insurance policies in accordance with the relevant securities and futures laws of Hong Kong. The Group also carries professional liability insurance, corporate liability insurance and financial institutional civil liability insurance. Additionally, the Group maintains insurance coverage for certain of its assets, including motor vehicles and leased properties.

Up to the date of this Offering Circular, the Group has maintained such insurance coverage as it considers necessary and sufficient for its operations and customary for the industry in which it operates. Moreover, the Group's policies are subject to standard deductibles, exclusions and limitations. Therefore, insurance might not necessarily cover all losses incurred by the Group and there can be no assurance that the Group will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, its insurance policies. The Group periodically reviews its insurance coverage to ensure that it has adequate coverage for its business.

EMPLOYEES

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

The Group continuously refines its remuneration and incentive policies to boost business development and ensure employees receive competitive remuneration packages. The remuneration of the Directors is determined with reference to their duties, responsibilities, experience and to the prevailing market conditions. Mandatory provident fund scheme contributions and insurance packages have been provided to employees in accordance with local laws and regulations. The Group also provides various staff benefits according to among others, the relevant internal policy of the Guarantor.

The Group conducts performance evaluations of its employees annually to provide feedback on their performance. The Group systematically provides comprehensive and diverse trainings to improve the professional skills of its employees. Employees are subsidised for participating in training courses which keep them abreast of the latest industry and technical developments.

LEGAL AND REGULATORY MATTERS

The Group is subject to the regulatory regimes in Hong Kong and the PRC, as well as the requirements set out by the various professional industry bodies of which it is a member. The following summary sets out the principal laws and regulations in the PRC and Hong Kong which are relevant to the business and operations of the Guarantor. As this is a summary, it does not contain a detailed analysis of the PRC laws and regulations which are relevant to the business and operations of the Guarantor.

PRC Regulations

The PRC Legal System

The PRC legal system is based on the Constitution of the People's Republic of China (the "**PRC Constitution**") and is made up of written laws, regulations, directives and local laws and laws resulting from international treaties entered into by the PRC government. In general, court judgments do not constitute binding precedents. However, they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC (the "**NPC**") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution, enact and amend basic laws governing State agencies and civil, criminal and other matters. The Standing Committee of the NPC is empowered to enact and amend all laws except for the laws that are required to be enacted and amended by the NPC.

The State Council of the PRC (the "**State Council**") is the highest organ of the State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue regulations and rules, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council, within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must be consistent with the PRC Constitution and the national laws enacted by the NPC and the Standing Committee of the NPC. In the event that a conflict arises, the Standing Committee of the NPC has the power to annul administrative rules and regulations.

The People's Congresses or their standing committees of the provinces, autonomous regions, centrally-administered municipalities, the cities divided into districts and special economic zones may, in accordance with Legislation Law of the PRC which took effect on 15 March 2015, in light of the specific conditions and actual needs of their respective administrative areas, formulate local regulations, provided that such regulations do not contradict the PRC Constitution, the laws or the administrative regulations in the PRC.

The PRC Constitution vests the power to interpret laws in the Standing Committee of the NPC. The Supreme People's Court, in addition to its power to give general interpretation on the application of laws in judicial proceedings, also has the power to interpret specific cases. The State Council and its ministries and commissions are also vested with the power to interpret rules and regulations that they have promulgated. At the regional level, the power to interpret regional rules and regulations is vested in the regional legislative and administrative bodies which promulgated such laws.

The PRC Judicial System

Under the PRC Constitution and the Law of Organisation of the People's Courts, the judicial system is made up of the Supreme People's Court, the local courts and other special courts. The local courts are comprised of the basic courts, the intermediate courts and the higher courts. The basic courts hear cases of first instance, unless otherwise provided for by laws. The intermediate courts hear cases of first instance assigned by laws to its jurisdiction, first instance submitted by primary people's courts for trial, first instance falling under its jurisdiction as designated by the people's court at the higher level, appeals or protests lodged against judgments or orders of primary people's courts and cases of retrials initiated in accordance with the procedures for judicial supervision. The higher courts hear cases of first instance assigned by laws to its jurisdiction, first instance submitted by people's courts at lower levels, first instances falling under its jurisdiction as designated by the Supreme People's Court, appeals or protests lodged against judgments or orders of the intermediate people's courts, retrials initiated in accordance with the procedures for judicial supervision and cases of death sentences submitted by the intermediate people's courts for approval. The people's procuratorates also have the right to exercise legal supervision over the civil proceedings of courts of the same level and lower levels. The Supreme People's Court is the highest judicial body in the PRC. It supervises the administration of justice by all other courts.

The courts employ a two-tier appellate system. A party may appeal against a judgment or order of a local court to the court at the next higher level. Second judgments or orders given at the next higher level and the first judgments or orders given by the Supreme People's Court are final. If, however, the Supreme People's Court or a court at a higher level finds an error in a judgment which has been given by any court at a lower level, or the president of a court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried in accordance with the judicial supervision procedures.

The Civil Procedure Law of the PRC, which was adopted on 9 April 1991 and respectively amended on 28 October 2007, 31 August 2012 and 27 June 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court in which the defendant resides. The parties to a contract may, by express agreement, select a jurisdiction where civil actions may be brought, provided that the jurisdiction is either the plaintiff's or the defendant's place of residence, the place of execution or implementation of the contract or the place of the object of the contract. However, such selection cannot violate the stipulations of grade jurisdiction and exclusive jurisdiction in any case.

A foreign individual or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with an effective judgment or order made by a court or an award granted by an arbitration panel in the PRC, the aggrieved party may apply to the competent court to request for enforcement of the judgment, order or award. The time limit imposed on the right to apply for such enforcement is two years. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, mandatorily enforce the judgment.

Hong Kong Regulations

The SFO is the principal legislation regulating the securities and futures industry in Hong Kong and it is administered by the SFC which is the statutory regulatory body that governs the securities and futures markets and non-bank retail leveraged foreign exchange market in Hong Kong.

Due to the licensing regime of the SFC, in order to engage in the businesses of the Group, such as corporate finance, securities brokerage and margin financing, and asset management and investment advisory, the relevant entities within the Group and their responsible personnel are required to obtain and hold the relevant licences from the SFC and to be in compliance with applicable regulatory requirements from time to time.

Apart from the SFO, the Group's licensed entities and their licensed personnel are required to comply with Hong Kong subsidiary legislation and regulations, codes and guidelines developed by the SFC, as well as rules and regulations introduced and administered by the SEHK and the Hong Kong Futures Exchange Limited (the "**Futures Exchange**"). Any broker-dealer that intends to operate a brokerage business for products available on Hong Kong Exchanges and Clearing Limited or which uses the trading facilities of the SEHK and/or Futures Exchange, must be admitted and registered as an Exchange Participant (as defined in the SFO) of that exchange. As of the date of this Offering Circular, the Group primarily carries out its regulated business activities through its licensed subsidiaries. The Group is licensed to undertake comprehensive regulated activities in Hong Kong and has obtained the following licences from the SFC: Type 1 (Dealing in Securities), Type 2 (Dealing in Futures Contracts), Type 4 (Advising on Securities), Type 5 (Advising on Futures Contracts), Type 6 (Advising on Corporate Finance) and Type 9 (Asset Management).

As of the date of this Offering Circular, the following members of the Group were licensed under the SFO to conduct the following regulated activities:

Group Company	Regulated Activities by Type of Licence
BOCOM International (Asia) Limited	Type 1, Type 6
BOCOM International Securities Limited	Type 1, Type 2, Type 4, Type 5
BOCOM International Asset Management Limited	Type 1, Type 4, Type 9

Legal Proceedings

The Group is a party to a number of legal proceedings arising in the ordinary course of its business. During the three years ended 31 December 2020 and up to the date of this Offering Circular, there were no legal proceedings pending or threatened against the Group or the Directors that could, individually or in the aggregate, have a material adverse effect on the Group's business, financial condition or results of operations.

RISK MANAGEMENT AND INTERNAL CONTROL

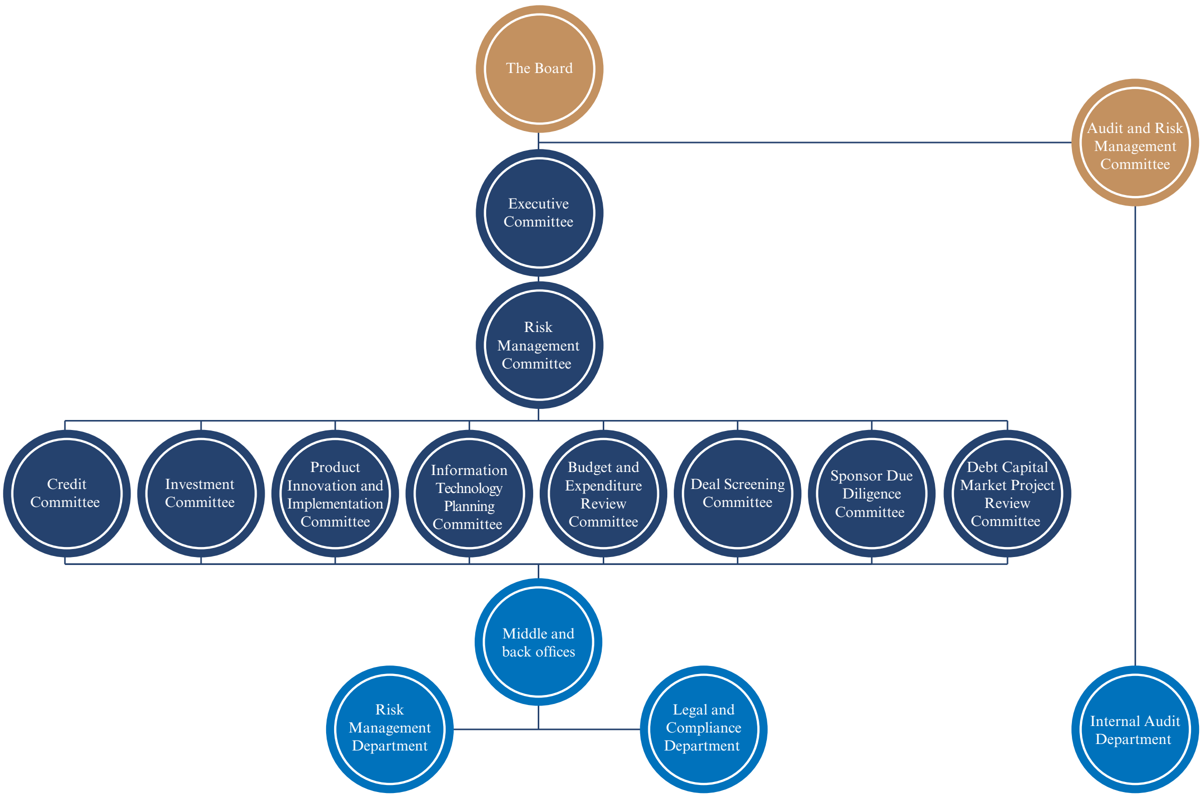
Overview

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

During the ordinary course of the Group's business activities, the Group is exposed primarily to the following risks: (i) credit risk arising primarily from the default of the Group's clients in performing their contractual obligations, which mainly exist in the Group's securities brokerage and margin financing as well as investment and loans businesses; (ii) operational risk arising from improper operations or errors in executing transactions; (iii) compliance risk of being subject to legal and regulatory sanctions, enforcement actions or penalties arising from non-compliance of the Group's operations with the applicable rules and regulations; (iv) legal risk arising from violations of laws and regulations, breaches of contracts, infringements on the legal rights of others or otherwise in connection with any contract or business activity in which the Group are involved; and (v) market risk arising from changes of market, including equity risk due to price fluctuations in the Group's equity-based assets, and interest rate and exchange rate risks leading to a loss of, or decrease in, the income or the Group's trading or investing positions. In addition, the Group also faces liquidity and reputational risks. The Group has established a comprehensive risk management process for identifying, assessing, measuring, mitigating, monitoring and reporting credit, market, liquidity, operational, compliance and legal and reputational risks in the Group's business operations.

Risk Management Framework

The Group has established a three-tier risk management structure consisting of (i) the Board of Directors of the Guarantor (the "**Board**" or the "**Board of Director**"); (ii) a risk management committee and special committees and (iii) the relevant middle and back offices in charge of the execution of risk management processes. The following chart illustrates the Group's risk management framework:



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

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

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

Conflicts of Interest

Being a financial services firm with a diversified range of businesses, the Group recognises the importance of managing conflicts of interest in protecting the interests of the Group's clients and itself. Conflicts of interest may arise between: (i) the Group's various business units; (ii) the Group's clients and itself; (iii) the Group's various clients; (iv) the Group's employees and itself; or (v) the Group's clients and the Group's employees.

The Group has put in place policies prohibiting staff from engaging in any transaction in which they have a material interest that gives rise to a conflict of interest, unless such conflict of interest has been properly addressed. Additionally, the Group has adopted a series of measures and methods to manage conflicts of interest based on the principles of prudent management, prioritising client interests and treating clients fairly. The Group has established the Chinese wall policy to avoid conflicts of interest. If it becomes difficult to avoid conflicts of interest even with Chinese walls, such conflicts of interest must be disclosed to clients. If such conflicts of interest cannot be managed effectively through disclosure, the Group may adopt measures such as imposing restrictions on business activities.

Compliance with the Foreign Account Tax Compliance Act of the United States ("FATCA")

To ensure that the Group complies with the FATCA requirements, the Group has adopted the following measures:

- registering with the U.S. Internal Revenue Services;
- enhancing the Group's current account opening procedures to ensure compliance with FATCA;
- conducting reviews of the Group's existing client accounts to identify any accounts held by U.S. taxpayers; and
- providing training and guidance to the Group's employees with respect to the requirements under FATCA.

The Guarantor registered with the U.S. Internal Revenue Services as a participating foreign financial institution (PFFI) for FATCA purposes in 2015 and made the reporting accordingly for 2015 and 2016, respectively.

Staff Dealing Rules

The Group's employees must be aware of and comply with the relevant staff dealing provisions in the Group's compliance manual and applicable laws and regulations, and if they engage in their own securities trading, they are generally required to open a securities account with the Group. The Group's Legal and Compliance Department maintains a list of securities for which restrictions on staff dealing are applicable. The Group's employees must not trade securities on such restrictive list and seek approval before conducting dealing for themselves. They shall also report their personal investments to the Group's Legal and Compliance Department as required. For the Group's employees in the corporate finance and underwriting business particularly, they must not trade securities on the watch list.

Employees who have invested in securities or opened accounts with other financial institutions for securities trading prior to commencement of employment with the Group shall submit the relevant information on such investments and accounts to the Group and inform the Group's Legal and Compliance Department of any change in their account status immediately. Employees of the

Group's asset management and advisory and corporate finance and underwriting businesses, as well as the Group's research team, and certain other specified employees are subject to more stringent rules of dealing.

Chinese Wall

A Chinese wall is a barrier to protect sensitive information from being transmitted between, or being used by, businesses and departments, and includes a series of measures to avoid mis-use and leakage of sensitive and/or non-public information between businesses and departments.

As a securities firm with a diversified range of businesses and products, the Group will inevitably face various types of conflict of interest. In order to protect the interests of the Group's clients and to maintain the Group's reputation, the Group has established Chinese walls in different business lines to prevent and minimise potential conflicts of interest by controlling the flow of sensitive information and establishing rules and policies on information segregation. The Group has categorised its departments into public side and private side, and recognised certain senior management and committee members as "above the wall". In cases where it is necessary for the Group's employees to "cross over the wall", such activity shall be strictly monitored, tracked and recorded.

Segregation of Duties

To minimise the possibility of collusion and improper trading, duties and functions within the Group's various business units are assigned to different teams of employees. No employee may work concurrently for two or more departments with conflicts of interest, while employees in the business units are not allowed to work concurrently in subsidiaries with conflicts of interest.

Anti-Money Laundering

The Group has incorporated anti-money laundering procedures into the Group's internal control system and daily operation in strict compliance with the relevant Hong Kong and PRC laws and regulations on anti-money laundering and counter-terrorist financing. The Group complies with the "Know Your Client" principles and undertakes steps for client identification and verification of the same. In addition, the Group carries out due diligence investigations and other risk control measures on clients and requires due diligence materials before transactions based on their risk classification, and monitors clients' transactions for any unusual activities on an ongoing basis. The Group has properly maintained the identity information and transaction records of the Group's clients. The Group also holds annual anti-money laundering training for employees to enhance their understanding. For risks associated with money laundering activities, see "*Risk Factors — Risks Relating to the Group's Businesses and Industry — The Group may not be able to fully detect money laundering and other illegal or improper activities in the Group's business operations on a timely basis*".

The Group is determined to eliminate any money laundering and terrorist financing activities, and has strictly complied with the SFC's Guideline on Anti-Money Laundering and Counter-Financing of Terrorism (the "**Guideline**"), and has formulated an internal "Measures for Anti-Money Laundering and Counter-Financing of Terrorism". It aims to raise awareness of anti-money laundering and terrorist financing among employees. The Group requires employees of the Group to fully understand their responsibilities under the laws of Hong Kong, including but not limited to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance, the Drug Trafficking (Recovery of Proceeds) Ordinance, the Organised and Serious Crimes Ordinance, the United Nations (Anti-Terrorism Measures) Ordinance, the United Nations Sanctions Ordinance, the Weapons of Mass Destruction (Control of Provision of Services) Ordinance, etc., and they are encouraged to report any suspected crimes in accordance with the relevant laws. The Group reviews and updates the "Measures for Anti-Money Laundering and Counter-Financing of Terrorism" in a timely manner to ensure that it complies with the latest laws and regulations, and strives to work together with its employees to fight against money laundering and terrorist financing. The Group also regularly provides employees with compulsory anti-money laundering trainings, with the aim of enhancing their knowledge and capabilities in fighting against money laundering and terrorist financing activities. In 2020, the Group organised 12 anti-money laundering trainings, the content of which was tailor-made according to the nature of the employees' work, consisting of prevailing legal and regulatory requirements, in-house policies and case sharing, with an aim to consolidate employees' knowledge on fighting against money laundering and terrorist financing.

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

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Pricing Supplement, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) or Global Certificate representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Pricing Supplement or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of non-applicable provisions), shall be endorsed on such Bearer Notes or on the Certificates relating to such Registered Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Pricing Supplement. Those definitions will be endorsed on the definitive Notes or Certificates, as the case may be. References in the Conditions to Notes are to the Notes of one Series only, not to all Notes that may be issued under the Programme.

The Notes are part of a Series (as defined below) of Notes issued by BOCOM International Blossom Limited (the **Issuer**) pursuant to the Trust Deed (as defined below). The due payment of all sums expressed to be payable by the Issuer under the Notes and the Trust Deed is guaranteed by BOCOM International Holdings Company Limited (the **Guarantor**) as specified hereon.

The Notes are constituted by a trust deed (as amended, restated, replaced or supplemented from time to time, the **Trust Deed**) dated 4 June 2021 between the Issuer, the Guarantor and Bank of Communications Trustee Limited as trustee (the **Trustee**, which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the **Conditions**) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below. An agency agreement (as amended, restated, replaced or supplemented from time to time, the **Agency Agreement**) dated 4 June 2021 has been entered into in relation to the Notes between the Issuer, the Guarantor, the Trustee, Bank of Communications Co., Ltd. Hong Kong Branch as initial issuing and paying agent and as CMU lodging and paying agent for Notes to be held in the Central Moneymarkets Unit Service operated by the Hong Kong Monetary Authority (the **CMU**) and the other agents named in it. The issuing and paying agent, the CMU lodging and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the **Issuing and Paying Agent** (which expression shall include any additional or successor issuing and paying agent), the **CMU Lodging and Paying Agent** (which expression shall include any additional or successor CMU lodging and paying agent), the **Paying Agents** (which expression shall include the Issuing and Paying Agent and the CMU Lodging and Paying Agent and any additional or successor thereof), the **Registrar** (which expression shall include any additional or successor registrar), the **Transfer Agents** (which expression shall include the Transfer Agent and any additional or successor thereof) and the **Calculation Agent(s)** (which expression shall include any additional or successor calculation agent) (such Issuing and Paying Agent, CMU Lodging and Paying Agent, Paying Agents, Registrars, Transfer Agents and Calculation Agent(s) being together referred to as the **Agents**). For the purposes of these Conditions, all references to the Issuing and Paying Agent shall, with respect to a Series of Notes to be held in the CMU, be deemed to be a reference to the CMU Lodging and Paying Agent and all such references shall be construed accordingly.

Copies of the Trust Deed and the Agency Agreement are (i) available for inspection during usual business hours at the principal office of the Trustee (presently at 1/F, Far East Consortium Building, 121 Des Voeux Road Central, Hong Kong) and at the specified office of the Paying Agent or (ii) may be provided by email to a Noteholder following their prior written request to the Trustee and Paying Agent, and provision of proof of holding and identity (in a form satisfactory to the Trustee and Paying Agent, as the case may be). All capitalised terms that are not defined in these Conditions have the same meanings given to them in the relevant Pricing Supplement.

The Noteholders, the holders of the interest coupons (the **Coupons**) relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the **Talons**) (the **Couponholders**) and the holders of the receipts for the payment of instalments of principal (the **Receipts**) relating to Notes in bearer form of which the principal is payable in instalments are entitled to the benefit of, are bound by, and (i) are deemed to have notice of, all the provisions of the Trust Deed, and (ii) are deemed to have notice of those provisions applicable to them of the Agency Agreement. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement.

As used in these Conditions, **Tranche** means Notes which are identical in all respects, and **Series** means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (i) expressed to be consolidated and form a single series with such Tranche of Notes and (ii) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates (as defined below), Interest Commencement Dates and/or issue prices.

1. FORM, DENOMINATION AND TITLE

The Notes are issued in bearer form (**Bearer Notes**) or in registered form (**Registered Notes**) in each case in the Specified Denomination(s) shown hereon. References to **hereon** is to the applicable Pricing Supplement (or the relevant provisions thereof) attached to or endorsed on this Note.

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, an Instalment Note, a Dual Currency Note or a Partly Paid Note, a combination of any of the foregoing or any other kind of Note, depending upon the Interest and Redemption/Payment Basis shown hereon.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable. Instalment Notes are issued with one or more Receipts attached.

Registered Notes are represented by registered certificates (**Certificates**) and, save as provided in Condition 2(c), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the **Register**). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be and may be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

*For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV (**Euroclear**) and/or Clearstream Banking S.A. (**Clearstream**) and/or a sub-custodian for the CMU, each person (other than Euroclear or Clearstream or the CMU) who is for the time being shown in the records of Euroclear or Clearstream or the CMU as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream or the CMU as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer, the Paying Agents, the Registrar (in the case of Registered Notes) and the Trustee as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the* *relevant Registered Global Note shall be treated by the Issuer, any Paying Agent, the Registrar (in the case of Registered Notes) and the Trustee as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions Noteholder and holder of Notes and related expressions shall be construed accordingly. Notwithstanding the above, if a Note (whether in global or definitive form) is held through the CMU, any payment that is made in respect of such Note shall be made at the direction of the bearer or the registered holder to the person(s) for whose account(s) interests in such Note are credited as being held through the CMU in accordance with the CMU rules at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU as to the identity of any accountholder and the principal amount of any Note credited to its account, save in the case of manifest error) and such payments shall discharge the obligation of the Issuer in respect of that payment under such Note.*

In determining whether a particular person is entitled to a particular nominal amount of Notes as aforesaid, the Trustee and the Agents may rely on such evidence and/or information and/or certification as it shall, in its absolute discretion, think fit and, if it does so rely, such evidence and/or information and/or certification shall, in the absence of manifest error, be conclusive and binding on all concerned.

In these Conditions, (a) **Noteholder** means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered, as the case may be; (b) **holder** (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered, as the case may be; (c) Couponholder means the holder of any Coupon and (d) capitalised terms have the meanings given to them hereon, the absence of any such meaning indicating that such term is not applicable to the Notes.

2. NO EXCHANGE OF NOTES AND TRANSFERS OF REGISTERED NOTES

(a) No Exchange of Notes

Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) Transfer of Registered Notes

Subject to Condition 2(f), one or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer or the Guarantor), duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals that have executed the form of transfer. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. All transfers of Notes and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Notes (the **Regulations**), the initial form of which scheduled to the Agency Agreement. The Regulations may be changed (i) by the Issuer or the Guarantor, with the prior written approval of the Registrar and the Trustee or (ii) by the Registrar, with the prior written approval of the Trustee. A copy of the current Regulations will be made available for inspection by the Registrar to any Noteholder at the specified office of the Registrar at all reasonable times during usual business hours upon prior written request and satisfactory proof of holding.

(c) Exercise of Options or Partial Redemption in Respect of Registered Notes

In the case of an exercise of an Issuer's or Noteholders' option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) Delivery of New Certificates

Each new Certificate to be issued pursuant to Conditions 2(b) or 2(c) shall be available for delivery within three business days of receipt of a duly completed form of transfer or Put Exercise Notice (as defined in Condition 6(f)) or the Exercise Notice (as defined in Condition 6(e)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar, as the case may be, to whom delivery or surrender of such form of transfer, Put Exercise Notice, Exercise Notice or Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Put Exercise Notice, the Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar, as the case may be, the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), **business day** means a day, other than a Saturday or Sunday or public holiday, on which commercial banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar, as the case may be. No Agent will be liable for the loss of any Certificate in the course of delivery.

(e) Transfers Free of Charge

Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon (i) payment by the relevant Noteholders of any tax or other governmental charges of whatsoever nature that may be levied or imposed in relation to them (or the giving of such indemnity and/or security and/or prefunding as the Registrar or the relevant Transfer Agent may require); (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application; and (iii) the relevant Agent being satisfied that the Regulations (as defined in Condition 2(b)) concerning transfer of Notes have been complied with.

(f) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered (i) during the period of 15 days ending on (and including) the due date for redemption of, or payment of any Instalment Amount in respect of, that Note, (ii) after the exercise of the put option in Condition 6(e), (iii) after the exercise of the put option in Condition 6(f), (iv) during the period of 15 days prior to any date on which Notes are redeemed by the Issuer at its option, or (v) during the period of seven Business Days ending on (and including) any Record Date.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream and the CMU, as the case may be. References to Euroclear and/or Clearstream and/or the CMU shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Pricing Supplement or as may otherwise be approved by the Issuer, the Issuing and Paying Agent, the CMU Lodging and Paying Agent and the Trustee, as the case may be.

3. GUARANTEE AND STATUS

(a) Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due and punctual payment of all sums expressed to be payable by the Issuer under and in respect of the Trust Deed and the Notes, the Receipts and the Coupons. Its obligations in that respect (the **Guarantee**) are contained in the Trust Deed. The Guarantee constitutes direct, unconditional, unsubordinated, and (subject to Condition 4(a)) unsecured obligations of the Guarantor, and shall at all times rank at least *pari passu* with all other present and future unconditional, unsubordinated and unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) Status of Notes

The Notes and the Receipts and the Coupons relating to them constitute direct, unconditional, unsubordinated, and (subject to Condition 4(a)) unsecured obligations of the Issuer, and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Receipts and the Coupons relating to them shall, save for such exceptions as may be provided by applicable law and subject to Condition 4(a), at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Issuer.

4. NEGATIVE PLEDGE AND OTHER COVENANTS

(a) Negative Pledge

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer and the Guarantor will not, and the Guarantor will procure that none of its Material Subsidiaries (as defined below) will, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest (the **Security**) upon the whole or any part of its business, undertaking, properties, assets or revenues (including any uncalled capital), present or future, to secure the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness, or any guarantee of or indemnity given in respect of the repayment or payment of principal, premium or interest of or on any Relevant Indebtedness unless, at the same time or prior thereto, the Issuer's obligations under the Notes or, as the case may be, the Guarantor's obligations under the Guarantee (i) are secured by the Security equally and rateably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement (whether or not it includes the giving of a Security) as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the interests of the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

(b) Limitation on the Issuer's Activities

For so long as the Notes are outstanding, the Issuer will not, and the Guarantor undertakes to use all its reasonable endeavours to procure that the Issuer will not, conduct business or any other activities other than (A) the offering, sale or issuance of any debt securities (including the Notes and any further securities issued in accordance with Condition 15), (B) entry into any other indebtedness, (C) the lending of the proceeds thereof to the Guarantor or a company controlled by the Guarantor, directly or indirectly, (D) the maintenance of the Issuer's corporate existence, and (E) any other activities in connection therewith.

(c) Provision of Reports

So long as any of the Notes remain outstanding, the Issuer and the Guarantor will deliver to the Trustee the following documents in the English language:

(i) a Compliance Certificate of each of the Issuer and the Guarantor (on which the Trustee may rely as to such compliance) and copies of the Guarantor's financial statements (on a consolidated basis) in respect of such financial year (including an income statement, statement of comprehensive income, statement of financial position and statement of cash flows and any notes to the financial statements) audited by a member firm of independent accountants as soon as they are available, but in any event within 180 calendar days after the end of the fiscal year of the Guarantor (and, in the case of a Compliance Certificate requested by the Trustee, within 15 business days of any written request by the Trustee); and

(ii) a Compliance Certificate of each of the Issuer and the Guarantor (on which the Trustee may rely as to such compliance) and copies of the Guarantor's unaudited financial statements (on a consolidated basis) in respect of such semi-annual period (including an income statement, statement of comprehensive income, statement of financial position and statement of cash flows and any notes to the unaudited financial statements) prepared on a basis consistent with the audited financial statements of the Guarantor, but in any event within 120 calendar days after the end of the first semi-annual fiscal period of the Guarantor;

provided however, that if at any time the Capital Stock of the Guarantor is listed for trading on a recognised stock exchange, the Guarantor will file with the Trustee, as soon as they are available but in any event not more than 14 days after any financial or other reports of the Guarantor are filed with any recognised exchange on which the Guarantor's Capital Stock is at any time listed for trading, copies of any financial or other report (in the English language) filed with such exchange in lieu of the reports identified in clauses (i) and (ii) above.

(d) Information Report to NDRC

Where the Circular on Promoting the Reform of the Filing and Registration System on the Issuance by Enterprises of Foreign Debt (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號) (the **NDRC Circular**) promulgated by the NDRC and which came into effect on 14 September 2015 and any implementation rules as issued by the NDRC from time to time apply, for the benefit of the relevant Series or Tranche of Notes to be issued in accordance with these Conditions, the Guarantor undertakes to:

(i) file or cause to be filed with the NDRC the requisite information and documents within the prescribed time frame after the relevant Issue Date in accordance with the NDRC Circular, and any implementation rules as issued by the NDRC from time to time (the **NDRC Post-issuance Filing**); and

(ii) within five PRC Business Days after submission of such NDRC Post-issuance Filing set out in Condition 4(d)(i), provide the Trustee with a certificate substantially in the form scheduled to the Trust Deed signed by an authorised signatory of the Guarantor confirming the due filing of the NDRC Post-issuance Filing.

The Trustee shall have no obligation to monitor and ensure the completion of the NDRC Post-issuance Filing or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issuance Filing, and shall not be liable to the Noteholders or any other person for not doing so.

In these Conditions:

Capital Stock means any and all shares, interests (including joint venture interests), participations or other equivalents (however designated) of capital stock of a corporation or any and all equivalent ownership interests in a Person (other than a corporation).

Compliance Certificate means a certificate, substantially scheduled to the Trust Deed, of each of the Issuer and the Guarantor signed by any one of their respective authorised signatories certifying that, having made all reasonable enquiries, to the best of the knowledge, information and belief of the Issuer or the Guarantor, as the case may be, as at a date (the **Certification Date**) not more than five days before the date of the certificate:

(i) no Event of Default (as defined in Condition 10) has occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed and, if such an event had occurred, giving details of it; and

(ii) each of the Issuer and the Guarantor, as the case may be, has complied with all its obligations under the Trust Deed and the Notes.

Material Subsidiary means a Subsidiary of the Issuer or the Guarantor, as the case may be, whose total assets or total revenue as of the date at which its latest audited financial statements were prepared or, as the case may be, for the financial period to which these audited financial statements relate, account for five per cent. or more of the consolidated assets or consolidated revenue of the Issuer or the Guarantor, as the case may be, as of such date or for such period. If a Material Subsidiary transfers all of its assets and business to another Subsidiary of the Issuer or the Guarantor, as the case may be, the transferee shall become a Material Subsidiary and the transferor shall cease to be a Material Subsidiary on completion of such transfer.

A report by an Authorised Signatory whether or not addressed to the Trustee that in their opinion a Subsidiary of the Issuer or the Guarantor is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties.

NDRC means the National Development and Reform Commission.

Person means any state-owned enterprise, individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organisation, limited liability company, government or any agency or political subdivision thereof or any other entity.

PRC means the People's Republic of China (for the purposes hereof not including Hong Kong Special Administrative Region, Macau Special Administrative Region of the PRC and Taiwan).

PRC Business Days means a day (other than a Saturday or Sunday) on which commercial banks are open for business in the PRC.

Relevant Indebtedness means any present or future indebtedness (whether being principal, premium, interest or other amounts) that is in the form of, or represented or evidenced by, any bonds, notes, debentures, debenture stocks, loan stocks, certificates or other securities, which (i) are, or are intended to be or capable of being, quoted, listed or ordinarily dealt in or traded on any stock exchange, over-the-counter market or other securities market, (ii) has an original maturity in excess of one year, (iii) is issued outside of the PRC, and (iv) does not have the benefit of credit enhancement through a standby letter of credit, bank guarantee or other similar arrangement or instrument from a commercial bank.

Subsidiary means, in relation to any Person (the **First Person**), any other Person whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the First Person.

5. INTEREST AND OTHER CALCULATIONS

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h).

(b) Interest on Floating Rate Notes and Index Linked Interest Notes

(i) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest on its outstanding nominal amount from and including the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(h). Such Interest Payment Date(s) is/are either shown hereon as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown hereon, Interest Payment Date shall mean each date which falls the number of months or other period shown hereon as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event (x) such date shall be brought forward to the immediately preceding Business Day and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment, (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day, (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified hereon and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified hereon.

(A) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate plus or minus (as indicated in the applicable Pricing Supplement) the Margin, if any. For the purposes of this sub-paragraph (A), **ISDA Rate** for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(x) the Floating Rate Option is as specified hereon;

(y) the Designated Maturity is a period specified hereon; and

(z) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified hereon.

For the purposes of this sub-paragraph (A), **Floating Rate**, **Calculation Agent**, **Floating Rate Option**, **Designated Maturity**, **Reset Date** and **Swap Transaction** have the meanings given to those terms in the ISDA Definitions.

(B) Screen Rate Determination for Floating Rate Notes (other than Floating Rate Notes which specify the Reference Rate as SOFR)

(x) Where Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

I. the offered quotation; or

II. the arithmetic mean of the offered quotations, (expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at either 11.00 a.m. (London time in the case of LIBOR or Brussels time in the case of EURIBOR or Hong Kong time in the case of HIBOR) or 11.15 a.m. (Hong Kong time in the case of CNH HIBOR) (or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time) on the Interest Determination Date in question as determined by the Calculation Agent). If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified hereon as being other than LIBOR or EURIBOR or HIBOR or CNH HIBOR, the Rate of Interest in respect of such Notes will be determined as provided hereon.

(y) if the Relevant Screen Page is not available or if sub-paragraph (x)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (x)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Calculation Agent shall request, if the Reference Rate is LIBOR, the principal London office of each of the Reference Banks or, if the Reference Rate is EURIBOR, the principal Euro-zone office of each of the Reference Banks or, if the Reference Rate is HIBOR or CNH HIBOR, the principal Hong Kong office of each of the Reference Banks, to provide in writing the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time), or if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate if CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time), on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent; and

(z) if paragraph (y) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as provided in writing to the Calculation Agent by the Reference Banks or any two or more of them, at which such banks were offered, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time) or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time), on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, if the Reference Rate is LIBOR, the London inter-bank market or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market, or, if the Reference Rate is HIBOR or CNH

HIBOR, the Hong Kong inter-bank market, as the case may be, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, if the Reference Rate is LIBOR, at approximately 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, at approximately 11.00 a.m. (Brussels time), or, if the Reference Rate is HIBOR, at approximately 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, at approximately 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent (in writing) it is quoting to leading banks in, if the Reference Rate is LIBOR, the London inter-bank market as at 11.00 a.m. (London time) or, if the Reference Rate is EURIBOR, the Euro-zone inter-bank market as at 11.00 a.m. (Brussels time), or, if the Reference Rate is HIBOR, the Hong Kong inter-bank market as at 11.00 a.m. (Hong Kong time) or, if the Reference Rate is CNH HIBOR, the Hong Kong inter-bank market as at 11.15 a.m. (Hong Kong time) or if, at or around that time it is notified that the fixing will be published at 2.30 p.m. (Hong Kong time), then as of 2.30 p.m. (Hong Kong time), as the case may be, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(C) Screen Rate Determination for Floating Rate Notes where the Reference Rate is specified as being SOFR Benchmark

If Screen Rate Determination is specified hereon as the manner in which the Rate of Interest is to be determined where the Reference Rate is SOFR Benchmark, the Rate of Interest applicable to the Floating Rate Notes for each Interest Accrual Period will, subject as provided below, be equal to the sum of the relevant SOFR Benchmark plus or minus (as specified in the relevant Pricing Supplement) the Margin (if any), all as determined by the Calculation Agent on the relevant Interest Determination Date.

The "SOFR Benchmark" will be determined based on Simple SOFR Average, Compounded SOFR Average or SOFR Index Average (as specified in the relevant Pricing Supplement), as follows (subject in each case to Condition 5(b)(iii)(v)(E)):

x. If Simple SOFR Average (**Simple SOFR Average**) is specified in the relevant Pricing Supplement as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Accrual Period shall be the arithmetic mean of the SOFR reference rates for each day during such Interest Accrual Period, as calculated by the Calculation Agent, and where, if applicable and as specified in the relevant Pricing Supplement, the SOFR reference rate on the SOFR Rate Cut-Off Date shall be used for the days in the relevant Interest Accrual Period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the last day of that Interest Accrual Period.

y. If Compounded SOFR Average (**Compounded SOFR Average**) is specified in the relevant Pricing Supplement as the manner in which the SOFR Benchmark will be determined, the SOFR Benchmark for each Interest Accrual Period shall be equal to the value of the SOFR reference rates for each day during the relevant Interest Accrual Period (where SOFR Observation Lag, SOFR Payment Delay or SOFR Lockout is specified in the relevant Pricing Supplement to determine Compounded SOFR Average) or SOFR Observation Period (where SOFR Observation Shift is specified as applicable in the relevant Pricing Supplement to determine Compounded SOFR Average).

Compounded SOFR Average shall be calculated by the Calculation Agent in accordance with one of the formulas referenced below depending upon which is specified in the relevant Pricing Supplement:

i. SOFR Observation Lag:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_{i-xUSBD}\times n_i}{360}\right)-1\right)\times\frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 being rounded upwards) and where:

$SOFR_{i\text{-}xUSBD}$ for any U.S. Government Securities Business Day "i" in the relevant Interest Accrual Period, is equal to the SOFR reference rate for the U.S. Government Securities Business Day falling the number of Lookback Days prior to that U.S. Government Securities Business Day "i";

Lookback Days means such number of U.S. Government Securities Business Days as specified in the relevant Pricing Supplement;

d means the number of calendar days in the relevant Interest Accrual Period;

d_o for any Interest Accrual Period, means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

i means a series of whole numbers ascending from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period; and

n_i for any U.S. Government Securities Business Day "i" in the relevant Interest Accrual Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day "i" up to (but excluding) the following U.S. Government Securities Business Day for which $SOFR_{i\text{-}xUSBD}$ applies.

ii. SOFR Observation Shift:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 being rounded upwards) and where:

$SOFR_i$ for any U.S. Government Securities Business Day "i" in the relevant SOFR Observation Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day "i";

SOFR Observation Period means, in respect of each Interest Accrual Period, the period from (and including) the date falling the number of SOFR Observation Shift Days prior to the first day of the relevant Interest Accrual Period to (but excluding) the date falling the number of SOFR Observation Shift Days prior to the last day of such Interest Accrual Period;

SOFR Observation Shift Days means the number of U.S. Government Securities Business Days as specified in the relevant Pricing Supplement;

d means the number of calendar days in the relevant SOFR Observation Period;

d_o for any SOFR Observation Period, means the number of U.S. Government Securities Business Days in the relevant SOFR Observation Period;

i means a series of whole numbers ascending from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant SOFR Observation Period; and

n_i for any U.S. Government Securities Business Day "i" in the relevant SOFR Observation Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day "i" up to (but excluding) the following U.S. Government Securities Business Day for which $SOFR_i$ applies.

iii. SOFR Payment Delay:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 being rounded upwards) and where:

$SOFR_i$ for any U.S. Government Securities Business Day "i" in the relevant Interest Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day "i";

Interest Payment Date shall be the number of Interest Payment Delay Days following each Interest Period Date; provided that the Interest Payment Date with respect to the final Interest Accrual Period will be the Maturity Date or the relevant date for redemption, as applicable;

Interest Payment Delay Days means the number of Business Days as specified in the relevant Pricing Supplement;

d means the number of calendar days in the relevant Interest Accrual Period;

d_o for any Interest Accrual Period, means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

i means a series of whole numbers ascending from one to d_o, each representing the relevant U.S. Government Securities Business Day in chronological order from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period; and

n_i for any U.S. Government Securities Business Day "i" in the relevant Interest Accrual Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day "i" up to (but excluding) the following U.S. Government Securities Business Day for which $SOFR_i$ applies.

For the purposes of calculating Compounded SOFR Average with respect to the final Interest Accrual Period where SOFR Payment Delay is specified in the relevant Pricing Supplement, the SOFR reference rate for each U.S. Government Securities Business Day in the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the Maturity Date or the relevant date for redemption, as applicable, shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date.

iv. SOFR Lockout:

$$\left(\prod_{i=1}^{d_o}\left(1+\frac{SOFR_i \times n_i}{360}\right)-1\right) \times \frac{360}{d}$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 being rounded upwards) and where:

$SOFR_i$ for any U.S. Government Securities Business Day "i" in the relevant Interest Accrual Period, is equal to the SOFR reference rate for that U.S. Government Securities Business Day "i", except that the SOFR for any U.S. Government Securities Business Day 'i" in respect of the period from (and including) the SOFR Rate Cut-Off Date to (but excluding) the last day of such Interest Accrual Period shall be the SOFR reference rate in respect of such SOFR Rate Cut-Off Date;

d means the number of calendar days in the relevant Interest Accrual Period;

d_o for any Interest Accrual Period, means the number of U.S. Government Securities Business Days in the relevant Interest Accrual Period;

i means a series of whole numbers ascending from one to d_o, representing each relevant U.S. Government Securities Business Day from (and including) the first U.S. Government Securities Business Day in the relevant Interest Accrual Period; and

$\mathbf{n_i}$ for any U.S. Government Securities Business Day "i" in the relevant Interest Accrual Period, means the number of calendar days from (and including) such U.S. Government Securities Business Day "i" up to (but excluding) the following U.S. Government Securities Business Day for which $SOFR_i$ applies.

The following defined terms shall have the meanings set out below for purpose of Conditions 5(b)(iii)(C)1(a)(i)(A)(1)(I)x(x) and 5(b)(iii)(C)(y):

Bloomberg Screen SOFRRATE Page means the Bloomberg screen designated "SOFRRATE" or any successor page or service;

Reuters Page USDSOFR = means the Reuters page designated "USDSOFR = " or any successor page or service;

SOFR means, with respect to any U.S. Government Securities Business Day, the reference rate determined by the Calculation Agent in accordance with the following provision:

i. the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Bloomberg Screen SOFRRATE Page; the Secured Overnight Financing Rate published at the SOFR Determination Time as such reference rate is reported on the Reuters Page USDSOFR = ; or the Secured Overnight Financing Rate published at the SOFR Determination Time on the SOFR Administrator's Website;

ii. if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the SOFR reference rate shall be the reference rate published on the SOFR Administrator's Website for the first preceding U.S. Government Securities Business Day for which SOFR was published on the SOFR Administrator's Website; or

iii. if the reference rate specified in (i) above does not appear and a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5(b)(iii)(v)(E) shall apply;

SOFR Determination Time means approximately 3:00 p.m. (New York City time) on the immediately following the relevant U.S. Government Securities Business Day.

z. If SOFR Index Average (**SOFR Index Average**) is specified as applicable in the relevant Pricing Supplement, the SOFR Benchmark for each Interest Accrual Period shall be equal to the value of the SOFR reference rates for each day during the relevant Interest Accrual Period as calculated by the Calculation Agent as follows:

$$\left(\frac{SOFR\ Index_{End}}{SOFR\ Index_{Start}} - 1\right) \times \left(\frac{360}{d_c}\right)$$

with the resulting percentage being rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 being rounded upwards) and where:

SOFR Index with respect to any U.S. Government Securities Business Day, means the SOFR Index value as published on the SOFR Administrator's Website at the SOFR Index Determination Time, *provided that* if such SOFR Index value is not available and:

(i) if a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have not occurred, the **SOFR Index Average** shall be calculated on any Interest Determination Date with respect to an Interest Accrual Period, in accordance with the Compounded SOFR Average formula described above in Condition 5(b)(iii)(B)(z)(y)(ii)(*SOFR Observation Shift*); or

(ii) if a SOFR Benchmark Transition Event and its related SOFR Benchmark Replacement Date have occurred, the provisions set forth in Condition 5(b)(iii)(v)(E) shall apply;

SOFR Index$_{End}$ means the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified in the relevant Pricing Supplement prior to the last day of such Interest Accrual Period (or in the final Interest Accrual Period, the Maturity Date);

SOFR Index$_{Start}$ means the SOFR Index value on the date that is the number of U.S. Government Securities Business Days specified in the relevant Pricing Supplement prior to the first day of the relevant Interest Accrual Period;

SOFR Index Determination Time means, in relation to any U.S. Government Securities Business Day, approximately 3:00 p.m. (New York City time) on such U.S. Government Securities Business Day; and

d_c means the number of calendar days from (and including) the day in relation to which SOFR Index$_{Start}$ is determined to (but excluding) the day in relation to which SOFR Index$_{End}$ is determined (being the number of calendar days in the applicable reference period).

The following defined terms shall have the meanings set out below for purpose of this Condition 5(b)(iii)(C):

SOFR Administrator's Website means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source;

SOFR Benchmark Replacement Date means the date of occurrence of a Benchmark Event with respect to the then-current SOFR Benchmark;

SOFR Benchmark Transition Event means the occurrence of a Benchmark Event with respect to the then-current SOFR Benchmark;

SOFR Rate Cut-Off Date has the meaning given in the relevant Pricing Supplement; and

U.S. Government Securities Business Day or **USBD** means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities.

(D) *Benchmark Event (other than Floating Rate Notes which specify the Reference Rate as SOFR)*

If the Issuer or its designee determines that a Benchmark Event has occurred in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) as specified in the relevant Pricing Supplement remains to be determined by reference to such Original Reference Rate, then the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with the Conditions and, in either case, an Adjustment Spread if any, and any Benchmark Amendments in accordance with the Conditions). In making such determination, an Independent Adviser appointed pursuant to this Condition 5 shall act in good faith as an expert in accordance with the Conditions. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agent, the Noteholders or the Couponholders for any determination made by it, pursuant to this Condition 5(b)(iii)(D).

If (1) the Issuer is unable to appoint an Independent Adviser; or (2) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(b)(iii)(D) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(b)(iii)(D).

(i) *Successor Rate or Alternative Rate*: If the Independent Adviser determines that, (1) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)); or (2) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)).

(ii) *Adjustment Spread*: The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread), shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(iii) *Benchmark Amendments*: If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(b)(iii)(D) and the Independent Adviser determines (1) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the **Benchmark Amendments**) and (2) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(b)(iii)(iii), without any requirement for the consent or approval of the Noteholders, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of an Officer's Certificate of the Issuer pursuant to Condition 5(b)(iii)(iii), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, *inter alia*, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

In connection with any such variation in accordance with this Condition, the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(iv) *Notices, etc.:* Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agent and, in accordance with Condition 16 (Notices), the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee, the Calculation Agent and the Paying Agent of the same, the Issuer shall deliver to the Trustee an Officer's Certificate:

(1) confirming (A) that a Benchmark Event has occurred, (B) the Successor Rate or, as the case may be, the Alternative Rate and, (C) the applicable Adjustment Spread and (D) the specific terms of any Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition; and

(2) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Trustee, the Calculation Agent and the Paying Agent shall be entitled to conclusively rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread (if any) and the Benchmark Amendments (if any) and without prejudice to the Trustee's or the Calculation Agent's or the Paying Agent's ability to conclusively rely on such Officer's Certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agent and the Noteholders.

(v) *Survival of Original Reference Rate*: Without prejudice to the obligations of the Issuer under Conditions 5(b)(iii)(i), (ii) and (iii), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(iii)(B) specified in the relevant Pricing Supplement will continue to apply unless and until a Benchmark Event has occurred.

(E) Benchmark Event (SOFR)

The following provisions shall apply if Benchmark Event (SOFR) is specified as applicable in the relevant Pricing Supplement:

(i) Benchmark Replacement

If the Issuer or its designee determines on or prior to the relevant Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the-then current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates.

(ii) Benchmark Replacement Conforming Changes

In connection with the implementation of a Benchmark Replacement, the Issuer or its designee will have the right to make Benchmark Replacement Conforming Changes from time to time. For the avoidance of doubt, any of the Agents shall, at the direction and expense of the Issuer, effect such consequential amendments to the Agency Agreement and these Conditions as may be required to give effect to this Condition 5(b)(iii)(E). Noteholders' consent shall not be required in connection with effecting any such changes, including the execution of any documents or any steps to be taken by any of the Agents (if required). Further, none of the Agents shall be responsible or liable for any determinations, decisions or elections made by the Issuer or its designee with respect to any Benchmark Replacement or any other changes and shall be entitled to rely conclusively on any certifications provided to each of them in this regard.

(iii) Decisions and Determinations

Any determination, decision or election that may be made by the Issuer or its designee pursuant to this Condition 5(b)(iii)(E), including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection (i) will be conclusive and binding absent manifest error, (ii) will be made in the sole discretion of the Issuer or its designee, as applicable, and (iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

In these Conditions:

Adjustment Spread means either a spread (which may be positive, negative or zero), or the formula or methodology for calculating a spread, in either case, which the Independent Adviser, determines is required to be applied to the Successor Rate or the Alternative Rate (as the case may be) to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(ii) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if Independent Adviser determines that no such spread is customarily applied);

(iii) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be);

(iv) the Independent Adviser, determines in good faith to be appropriate;

Alternative Rate means an alternative benchmark or screen rate which the Independent Adviser, determines in accordance with Condition 5(b)(iii)(C) is customary in market usage in the international debt capital markets for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

Benchmark means, initially, the relevant SOFR Benchmark specified in the relevant Pricing Supplement; provided that if the Issuer or its designee determines on or prior to the Reference Time that a Benchmark Event and its related Benchmark Replacement Date have occurred with respect to the relevant SOFR Benchmark (including any daily published component used in the calculation thereof) or the then-current Benchmark, then **Benchmark** means the applicable Benchmark Replacement;

Benchmark Event means:

(i) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(ii) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(iii) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(v) a public statement by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

(vi) it has become unlawful for the Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder using the Original Reference Rate;

provided that in the case of sub-paragraphs (ii), (iii), (iv) and (v), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement.

Benchmark Replacement means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(i) the sum of:

(a) the alternate reference rate that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof); and

(b) the Benchmark Replacement Adjustment;

(ii) the sum of:

(a) the ISDA Fallback Rate; and

(b) the Benchmark Replacement Adjustment; or

(iii) the sum of:

(a) the alternate reference rate that has been selected by the Issuer or its designee as the replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) giving due consideration to any industry-accepted reference rate as a replacement for the then-current Benchmark (including any daily published component used in the calculation thereof) for U.S. dollar-denominated Floating Rate Notes at such time; and

(b) the Benchmark Replacement Adjustment;

Benchmark Replacement Adjustment means the first alternative set forth in the order below that can be determined by the Issuer or its designee as of the Benchmark Replacement Date:

(i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(ii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Issuer or its designee giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark (including any daily published component used in the calculation thereof) with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated Floating Rate Notes at such time;

Benchmark Replacement Conforming Changes means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Issuer or its designee decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Issuer or its designee decides that adoption of any portion of such market practice is not administratively feasible or if the Issuer or its designee determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Issuer or its designee determines is reasonably necessary);

Benchmark Replacement Date means the earliest to occur of the following events with respect to the then-current Benchmark (including any daily published component used in the calculation thereof):

(i) in the case of sub-paragraph (i) or (ii) of the definition of "Benchmark Event", the later of:

  (x) the date of the public statement or publication of information referenced therein; and

  (y) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(ii) in the case of sub-paragraph (iii) of the definition of "Benchmark Event", the date of the public statement or publication of information referenced therein;

For the avoidance of doubt, if the event giving rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

designee means a designee as selected and separately appointed by the Issuer in writing;

Independent Adviser means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer at its own expense;

ISDA Fallback Adjustment means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

ISDA Fallback Rate means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark (including any daily published component used in the calculation thereof) for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

Officer means the General Manager, the Chief Financial Officer, any Deputy General Manager or any director of the Issuer or the Guarantor, as the case may be;

Officer's Certificate means a certificate signed by an Officer;

Original Reference Rate means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes;

Rate of Interest means the rate or rates of interest payable from time to time in respect of the Notes specified in the Pricing Supplement or calculated or determined in accordance with the Conditions and/or the provisions of the Pricing Supplement;

Reference Time with respect to any determination of the Benchmark means (1) if the Benchmark is the SOFR Benchmark, the SOFR Determination Time (where Simple SOFR Average or Compounded SOFR Average is specified in the relevant Pricing Supplement) or SOFR Index Determination Time (where SOFR Index Average is specified in the relevant Pricing Supplement); or (2) if the Benchmark is not the SOFR Benchmark, the time determined by the Issuer or its designee after giving effect to the Benchmark Replacement Conforming Changes;

Relevant Governmental Body means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto;

Relevant Nominating Body means, in respect of a benchmark or screen rate (as applicable):

(i) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable), (c) a group of the aforementioned central banks or other supervisory authorities, or (d) the Financial Stability Board or any part thereof; and

Successor Rate means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body; and

Unadjusted Benchmark Replacement means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(iv) Rate of Interest for Index Linked Interest Notes

The Rate of Interest in respect of Index Linked Interest Notes for each Interest Accrual Period shall be determined in the manner specified hereon and interest will accrue by reference to an Index or Formula as specified hereon.

(c) Zero Coupon Notes

Where a Note the Interest Basis of which is specified to be Zero Coupon is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i)).

(d) Dual Currency Notes

In the case of Dual Currency Notes, if the rate or amount of interest is to be determined by reference to a Rate of Exchange or a method of calculating Rate of Exchange, the rate or amount of interest payable shall be determined in the manner specified hereon.

(e) Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified hereon.

(f) Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Default Rate specified in the Pricing Supplement, or, if none, Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8).

(g) Margin, Maximum/Minimum Rates of Interest, Instalment Amounts and Redemption Amounts and Rounding

(i) If any Margin is specified hereon (either (x) generally, or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to Condition 5(g)(ii) below.

(ii) If any Maximum or Minimum Rate of Interest, Instalment Amount or Redemption Amount is specified in the Pricing Supplement, then any Rate of Interest, Instalment Amount or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), (x) all percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up), (y) all figures shall be rounded to seven significant figures (with halves being rounded up) and (z) all currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with half a unit being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, unit means the lowest amount of such currency that is available as legal tender in the country or countries of such currency.

(h) Maximum or Minimum Rate of Interest

If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified. If the relevant Pricing Supplement does not specify any Minimum Rate of Interest and the Rate of Interest as determined by the Calculation Agent according to this Condition 5(b) is a negative value, the Rate of Interest shall be zero percent per annum.

(i) Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified hereon, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

So long as the Notes are represented by a Global Certificate which is held on behalf of Euroclear, Clearstream, CMU or any other clearing system, the Interests in respect of the Notes shall be calculated based on the aggregate principal amount of the Notes represented by the Global Certificate.

(j) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts and Instalment Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, (subject to being provided the required quotations in writing by the Reference Banks) make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or Instalment Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount, Optional Redemption Amount or any Instalment Amount to be notified (in writing) to the Trustee, the Issuer, the Guarantor, the Paying Agent, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination but in no event later than (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount, or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest

Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10, the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties. None of the Trustee or the Paying Agent shall be responsible for calculating or verifying the Early Redemption Amount.

(k) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

Business Day means a day which is both:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the location of the relevant paying agent; and

(ii) in the case of Notes denominated in:

  (i) a currency other than euro and Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the principal financial centre for such currency; and/or

  (ii) euro, a day on which the TARGET System is operating (a **TARGET Business Day**); and/or

  (iii) Renminbi, a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are generally open for business and settlement of Renminbi payments in Hong Kong; and/or

  (iv) a currency and/or one or more Financial Centres specified hereon a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments in such currency in the Financial Centre(s) or, if no currency is indicated, generally in each of the Financial Centres;

Day Count Fraction means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the **Calculation Period**):

(i) if **Actual/Actual or Actual/Actual — ISDA** is specified hereon, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if **Actual/365 (Fixed)** is specified hereon, the actual number of days in the Calculation Period divided by 365;

(iii) if **Actual/365 (Sterling)** is specified hereon, the actual number of days in the Calculation Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if **Actual/360** is specified hereon, the actual number of days in the Calculation Period divided by 360;

(v) if **30/360**, **360/360** or **Bond Basis** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360\times(Y_2-Y_1)+[30\times(M_2-M_1)]+(D_2-D_1)]}{360}$$

where:

$\mathbf{Y_1}$ is the year, expressed as a number, in which the first day of the Calculation Period falls;

$\mathbf{Y_2}$ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$\mathbf{M_1}$ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

$\mathbf{M_2}$ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$\mathbf{D_1}$ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

$\mathbf{D_2}$ is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if **30E/360** or **Eurobond Basis** is specified hereon, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360\times(Y_2-Y_1)+[30\times(M_2-M_1)]+(D_2-D_1)]}{360}$$

where:

$\mathbf{Y_1}$ is the year, expressed as a number, in which the first day of the Calculation Period falls;

$\mathbf{Y_2}$ is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$\mathbf{M_1}$ is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

$\mathbf{M_2}$ is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

$\mathbf{D_1}$ is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30;

(vii) if **30E/360 (ISDA)** is specified in the Pricing Supplement, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360\times(Y_2-Y_1)+[30\times(M_2-M_1)]+(D_2-D_1)]}{360}$$

where:

Y_1 is the year, expressed as a number, in which the first day of the Calculation Period falls;

Y_2 is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

M_1 is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

M_2 is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

D_1 is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

D_2 is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30;

(viii) if **Actual/Actual-ICMA** is specified hereon,

(i) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Periods normally ending in any year; and

(ii) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Periods normally ending in any year,

where:

Determination Period means the period from and including a Determination Date in any year to but excluding the next Determination Date;

Determination Date means the date(s) specified as such hereon or, if none is so specified, the Interest Payment Date(s);

Euro-zone means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended;

Interest Accrual Period means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date;

Interest Amount means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified hereon, shall mean the Fixed Coupon Amount or Broken Amount specified hereon as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period;

Interest Commencement Date means the date of issue of the Notes (the **Issue Date**) or such other date as may be specified hereon, or determined in accordance with the provisions of, the Pricing Supplement;

Interest Determination Date means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such hereon or, if none is so specified, (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling or Hong Kong dollars or Renminbi other than where the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR or (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro nor Hong Kong dollars nor Renminbi or (iii) the day falling two TARGET Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro or (iv) the day falling two Business Days in Hong Kong prior to the first day of such Interest Accrual Period if the Specified Currency is Renminbi and the Reference Rate is CNH HIBOR;

Interest Payment Date means the date or dates specified as such in, or determined in accordance with the provisions of, the Pricing Supplement;

Interest Period means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date unless otherwise specified in the Pricing Supplement;

Interest Period Date means each Interest Payment Date unless otherwise specified hereon;

ISDA Definitions means the 2006 ISDA Definitions, as amended and supplemented and as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified hereon;

Optional Redemption Date means the Optional Redemption Date specified in the applicable Pricing Supplement or such other date set for redemption of the Notes pursuant to Condition 6;

Redemption Amount means the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, each as specified as such in, or determined in accordance with the provisions of, the Pricing Supplement;

Reference Banks means, (i) in the case of a determination of LIBOR, the principal London office of four major banks in the London inter-bank market, (ii) in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, (iii) in the case of a determination of HIBOR, the principal Hong Kong office of four major banks in the Hong Kong inter-bank market and, (iv) in the case of a determination of CNH HIBOR, the principal Hong Kong office of four major banks dealing in Renminbi in the Hong Kong inter-bank market, in each case selected by the Issuer and notified in writing to the Calculation Agent or as specified hereon;

Reference Rate means the rate specified as such hereon;

Relevant Screen Page means such page, section, caption, column or other part of a particular information service as may be specified in the Pricing Supplement (or any successor or replacement page, section, caption, column or other part of a particular information service);

Specified Currency means the currency specified as such hereon or, if none is specified, the currency in which the Notes are denominated; and

TARGET System means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(l) Calculation Agent

The Issuer and the Guarantor shall procure that there shall at all times be one or more Calculation Agents if provision is made for them hereon and for so long as the relevant Series of Notes is outstanding (as defined in the Trust Deed). Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Instalment Amount, Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer and the Guarantor shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. For so long as the relevant Series of Notes is outstanding, the Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6. REDEMPTION, PURCHASE AND OPTIONS

(a) Redemption by Instalments and Final Redemption

(i) Unless previously redeemed, purchased and cancelled as provided in this Condition 6, each Note that provides for Instalment Dates and Instalment Amounts shall be partially redeemed on each Instalment Date at the related Instalment Amount specified hereon. The outstanding nominal amount of each such Note shall be reduced by the Instalment Amount (or, if such Instalment Amount is calculated by reference to a proportion of the nominal amount of such Note, such proportion) for all purposes with effect from the related Instalment Date, unless payment of the Instalment Amount is improperly withheld or refused, in which case, such amount shall remain outstanding until the Relevant Date relating to such Instalment Amount.

(ii) Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified hereon at its Final Redemption Amount (which, unless otherwise provided hereon, is its outstanding nominal amount) or, in the case of a Note falling within Condition 6(a)(i) above, its final Instalment Amount.

(b) Early Redemption

(i) Zero Coupon Notes

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified hereon.

(B) Subject to the provisions of sub-paragraph (C) below of this Condition 6(a)(i), the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is shown hereon, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date, compounded annually).

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10 is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph ((B) above of this Condition 6(b)(i), except that such Condition shall have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(c).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown hereon.

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in Condition 6(b)(i) above), upon redemption of such Note pursuant to Condition 6(c), Condition 6(d), Condition 6(e) or Condition 6(f) or upon it becoming due and payable as provided in Condition 10, shall be the Final

Redemption Amount unless otherwise specified hereon. Neither the Trustee nor any of the Agents will be responsible for calculating or verifying the Early Redemption Amount of the Final Redemption Amount.

(c) Redemption for Taxation Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note or an Index Linked Interest Note) or at any time (if this Note is neither a Floating Rate Note nor an Index Linked Interest Note), upon notice as described below, at their Early Redemption Amount (as described in Condition 6(b) above) (together with interest accrued (if any) to the date fixed for redemption and Additional Amounts, if any, if, as a result of any change in or amendment to the laws of a Relevant Taxing Jurisdiction (as defined in Condition 8) or any regulations or rulings promulgated thereunder, or any change in, or announcement of any, official interpretation or official application of such laws, regulations or rulings, which change or amendment or announcement becomes effective on or after the date on which an agreement is reached to issue the first Tranche of the Notes,

(i) the Issuer is or would be required on the next succeeding due date for a payment with respect to the Notes to pay Additional Amounts with respect to the Notes as described under Condition 8; or

(ii) with respect to a payment due or to become due under the Guarantee, the Guarantor is or would be required on the next succeeding due date for a payment with respect to the Notes to pay Additional Amounts as described above under Condition 8; and

such obligation cannot be avoided by the use of reasonable measures available to the Guarantor or the Issuer, as the case may be.

Notice of redemption of the Notes as provided above shall be given not less than 30 nor more than 60 days prior to the date fixed for redemption (in accordance with Condition 16 (Notices)) to the holders (which notice shall be irrevocable) and to the Trustee and the Issuing and Paying Agent. Notice having been given, the Notes of such series shall become due and payable on the date fixed for redemption and will be paid at the redemption price, together with accrued interest to the date fixed for redemption and any Additional Amounts, at the place or places of payment and in the manner specified in the notice. From and after the date fixed for redemption, if moneys for the redemption of such Notes shall have been made available as provided in the Trust Deed for redemption on the date fixed for redemption, the Notes shall cease to bear interest, and the only right of the holders of the Notes shall be to receive payment of the redemption price and interest accrued (if any) to the date fixed for redemption.

Prior to the mailing of any notice of redemption of the Notes pursuant to this Condition 6(c), the Issuer, the Guarantor or a surviving person, as the case may be, will deliver to the Trustee at least 30 days but not more than 60 days before the date fixed for redemption an Officer's Certificate stating that a change or amendment or announcement referred to in the prior paragraph has occurred, describing the facts relating thereto and stating that such requirement cannot be avoided by the Issuer, the Guarantor or such surviving person, as the case may be, taking reasonable measures available to it. The Trustee shall be entitled, without being liable to any Noteholders or Couponholders or any other Person, to conclusively rely upon and accept such Officer's Certificate as sufficient evidence of the satisfaction of the condition precedent set out in this Condition 6(c), in which event the same shall be conclusive and binding on the Noteholders and Couponholders.

Upon the expiry of any such notice period as is referred to in this Condition 6(c), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(c).

(d) Redemption at the Option of the Issuer

If Call Option is specified hereon, the Issuer may, on giving not less than 30 nor more than 60 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the applicable Pricing Supplement, which notice shall be irrevocable and shall specify the Optional Redemption Date) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above), together with interest (if any) accrued to but excluding the Optional Redemption Date). Any such redemption or exercise must relate to Notes of a principal amount at least equal to the Minimum Redemption Amount to be redeemed specified hereon and no greater than the Maximum Redemption Amount to be redeemed specified hereon.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

Any notice of redemption given under this Condition 6(d) will override any notice of redemption given (without previously, on the same date or subsequently) under Condition 6.

In the case of a partial redemption, the notice to Noteholders shall, in the case of Bearer Notes, also contain the certificate numbers of the Bearer Notes, or in the case of Registered Notes, specify the nominal amount of Registered Notes selected and the holder(s) of such Registered Notes, to be redeemed, which shall have been selected as follows:

(i) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed and/or if the Notes are held through any clearing system, in compliance with the requirements of the clearing systems; or

(ii) if the Notes are not held through any clearing system, on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate, unless otherwise required by law.

(e) Redemption at the Option of Noteholders

If Put Option is specified hereon, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 30 nor more than 60 days' notice to the Issuer (or such other notice period as may be specified hereon), redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount specified hereon (which may be the Early Redemption Amount (as described in Condition 6(b) above), together with interest (if any) accrued to the date fixed for redemption.

To exercise such option, the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice (an **Exercise Notice**) in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(f) Redemption upon a Change of Control

Unless previously redeemed under Condition 6, upon a Change of Control, the Issuer will be required to make an offer to redeem all of the Notes at a price in cash equal to 101 per cent. of the principal amount of the Notes redeemed, plus accrued and unpaid interest (if any) on the principal amount of Notes being redeemed to but excluding the date of redemption (a **Change of Control Offer**).

Within 30 days following any Change of Control, the Issuer will be required to give written notice (a **Put Exercise Notice**) to holders in accordance with Condition 16 (Notices) and to the Trustee, describing the transaction or transactions that constitute the Change of Control and offering to redeem all of the Notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is given. A Put Exercise Notice, once delivered, shall be irrevocable.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes such an offer substantially in the manner, at the times and in compliance with the requirements for a Change of Control Offer (and for at least the same purchase price payable in cash) and such third party purchases all Notes properly tendered and not withdrawn under its offer.

A holder will have no right to require the Issuer to redeem portions of Notes if it would result in the issuance of new Notes, representing the portion not redeemed, in an amount of less than the minimum Specified Denomination as set out in the Pricing Supplement.

The Issuer will comply, to the extent applicable, with the requirements of applicable securities laws or regulations in connection with the redemption of Notes pursuant to this covenant.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control has occurred or may occur, and shall be entitled to assume that no such event has occurred unless the Trustee has received written notice of the occurrence of such event. The Trustee shall not be responsible for determining or verifying whether a Note is to be accepted for purchase under a Change of Control Offer and will not be responsible to the holders for any loss arising from any failure by it to do so. Neither the Trustee nor any Agent shall be under any duty to determine, calculate or verify the amount payable under a Change of Control Offer and will not be responsible to the holders for any loss arising from any failure by it to do so.

In these Conditions:

(i) a **Change of Control** occurs when:

   (A) the Controlling Persons cease to Control the Guarantor; or

   (B) the Guarantor ceases to, directly or indirectly, own or control 100 per cent. of the voting rights of the issued share capital of the Issuer.

(ii) **Control** means (where applicable), with respect to a Person, (i) the ownership, acquisition or control of 51 per cent. or more of the voting rights of the issued share capital of such Person, whether obtained directly or indirectly or (ii) the right to appoint and/or remove a majority of the members of the Person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise or (iii) the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person.

(iii) "**Controlling Persons**" mean Bank of Communications Co., Ltd. or its successor.

(g) Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition 6 and the provisions specified hereon.

(h) Purchases

Each of the Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of, among other things, calculating quorums at meetings of the Noteholders or for the purposes of Conditions 10 (*Events of Default*), 11(a) (*Meetings of Noteholders, Modification and Waiver — Meetings of Noteholders*) or 12 (*Enforcement*) or when the Trustee is determining prejudice or material prejudice to Noteholders.

(i) Cancellation

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of their Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer or the Guarantor (as the case may be), be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer or the Guarantor (as the case may be) in respect of any such Notes shall be discharged.

7. PAYMENTS AND TALONS

So long as the Global Note or Global Certificate is held on behalf of Euroclear or Clearstream, CMU or any other clearing system, each payment in respect of the Global Note or Global Certificate will be made to the person shown as the Noteholder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where ***Clearing System Business Day*** *means (in respect of Euroclear or Clearstream) a weekday (Monday to Friday, inclusive) except 25 December and 1 January, and (in respect of CMU) a day on which CMU is open for business.*

(a) Bearer Notes

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its relative Note), Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(vi)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be:

(i) in the case of Notes denominated in a currency other than Renminbi, at the specified office of any Paying Agent outside the United States by wire transfer to an account denominated in such currency with, a Bank; and

(ii) in the case of Notes denominated in Renminbi, by wire transfer from the relevant Paying Agent's office outside the United States to a Renminbi account maintained by or on behalf of the Noteholder with a Bank in Hong Kong.

In this Condition 7(a) and in Condition 7(c), **Bank** means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET System.

(b) Payments in the United States

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if (i) the Issuer shall have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due, (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(c) Registered Notes

(i) Payments of principal (which for the purposes of this Condition 7(c) shall include final Instalment Amounts but not other Instalment Amounts) in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in Condition 7(c)(ii).

(ii) Interest (which for the purpose of this Condition 7(c) shall include all Instalment Amounts other than final Instalment Amounts) on Registered Notes shall be paid to the person shown on the Register at the close of business on the fifteenth day before the due date for payment thereof or in the case of Renminbi or otherwise specified, on the fifth day before the due date for payment thereof (the **Record Date**). Payments of interest on each Registered Note shall be made:

(A) in the case of Notes denominated in a currency other than Renminbi, upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by wire transfer to an account in the relevant currency maintained by the payee with a Bank; and

(B) in the case of Notes denominated in Renminbi, by transfer to the registered account of the Noteholder.

In this Condition 7(c), **registered account** means the Renminbi account maintained by or on behalf of the Noteholder with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth business day before the due date for payment.

(d) Payments subject to Fiscal Laws

All payments will be subject in all cases to (i) any applicable fiscal or other laws, regulations and directives applicable thereto in the place of payment, but without prejudice to the provisions of Condition 8 and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 8) any law implementing an intergovernmental approach thereto (together **FATCA**). No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) Appointment of Agents

The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Issuing and Paying Agent, the CMU Lodging and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee (where required in accordance with the Agency Agreement) to vary or terminate the appointment of the Issuing and Paying Agent, the CMU Lodging and Paying Agent, any other Paying Agent, any Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents or Transfer Agents, provided that the Issuer shall at all times maintain (i) an Issuing and Paying Agent, (ii) a Registrar in relation to Registered Notes, (iv) a Transfer Agent in relation to Registered Notes, (v) a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU, (vi) one or more Calculation Agent(s) where the Conditions so require, and (vii) such other agents as may be required by any other stock exchange on which the Notes may be listed.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. dollars in the circumstances described in Condition 7(b) above.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Noteholders in accordance with Condition 16 (*Notices*).

(f) Unmatured Coupons and Receipts and unexchanged Talons

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes (other than Dual Currency Notes or Index Linked Interest Notes), such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, Dual Currency Note or Index Linked Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Upon the due date for redemption of any Bearer Note that is redeemable in instalments, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(v) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(vi) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) Talons

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and if necessary another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9).

(h) Non-Business Days

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder shall not be entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7, **business day** means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are generally open for business in the relevant place of presentation, in such jurisdictions as shall be specified as **Financial Centres** hereon and:

(i) (in the case of a payment in a currency other than euro and Renminbi) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET Business Day; or

(iii) (in the case of a payment in Renminbi) on which banks and foreign exchange markets are open for business and settlement of Renminbi payments in Hong Kong.

8. TAXATION

All payments of principal, premium (if any) and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed, levied, collected, withheld or assessed by or within the Relevant Taxing Jurisdiction, unless such Taxes are required by law to be withheld or deducted.

If the Issuer or, as the case may be, the Guarantor, is required to make such a deduction or withholding, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts (**Additional Amounts**) as will result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no Additional Amounts shall be payable in respect of any Note, Receipt or Coupon or in respect of any payment pursuant to the Guarantee:

(a) held by or on behalf of a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with such Relevant Taxing Jurisdiction other than the mere holding of the Note, the Receipt or the Coupon;

(b) (in the case of payment of principal, premium or interest (other than interest due on an Interest Payment Date)) if the Certificate in respect of such Note is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to Additional Amounts on presenting the same for payment on the last day of the period of 30 days assuming (whether or not such is in fact the case) that day to have been a business day (as defined in Condition 7); or

(c) held by or on behalf of a holder who would not be liable for or subject to the Taxes by making a declaration of identity, non-residence or other similar claim for exemption to the Relevant Taxing Jurisdiction if, after having been requested to make such declaration or claim, such holder fails to do so within any applicable period prescribed by the Relevant Taxing Jurisdiction.

As used in these Conditions,

Relevant Date in respect of any Note, Receipt or Coupon means whichever is the later of (i) the date on which such payment first becomes due; and (ii) if the full amount payable has not been received by the Issuing and Paying Agent in accordance with the terms of the Agency Agreement on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the Notes, Receipt or Coupon.

Relevant Taxing Jurisdiction means the British Virgin Islands, Hong Kong, the PRC or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which Issuer or the Guarantor becomes subject in respect of payments made by it under the Guarantee or the Notes, as the case may be. If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the British Virgin Islands, Hong Kong or the PRC, references in these Conditions to the Relevant Taxing Jurisdiction shall be construed as references to the British Virgin Islands, Hong Kong, the PRC and/or such other jurisdiction.

References in these Conditions to (i) **principal** shall be deemed to include any premium payable in respect of the Notes, all Instalment Amounts, Final Redemption Amounts, Early Redemption Amounts, Optional Redemption Amounts, Amortised Face Amounts and all other amounts in the nature of principal payable pursuant to Condition 6 or any amendment or supplement to it, (ii) **interest** shall be deemed to include all Interest Amounts and all other amounts payable pursuant to Condition 5 or any amendment or supplement to it and (iii) **principal** and/or **interest** shall be deemed to include any additional amounts that may be payable under this Condition 8 or any undertaking given in addition to or in substitution for it under the Trust Deed.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 8 or in connection with the Notes or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Noteholder or any other person to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

9. PRESCRIPTION

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal or premium) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10. EVENTS OF DEFAULT

If any of the following events (each an **Event of Default**) occurs and be continuing, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. in aggregate nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to the Trustee first having been indemnified and/or secured and/or pre-funded to its satisfaction), give written notice to the Issuer and the Guarantor declaring that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

(a) failure to pay principal of, or premium on, if any, any Note after the date such amount is due and payable, upon optional redemption, acceleration or otherwise, and such failure to pay continues for a period of 7 days;

(b) failure to pay interest on any Note within 14 days after the due date for such payment;

(c) failure to perform any other covenant or agreement of the Guarantor or the Issuer in the Trust Deed, and in each case, such failure continues for 45 days after there has been given, by registered or certified mail, to the Guarantor or the Issuer, as the case may be, by the Trustee or by the holders of at least 25 per cent. in aggregate principal amount of the Notes of that series then outstanding (with a copy to the Trustee) a written notice specifying such failure and requiring it to be remedied and stating that such notice is a "Notice of Default" under the Trust Deed;

(d) the Guarantee shall cease to be in full force or effect or the Guarantor shall deny or disaffirm its obligations under the Guarantee;

(e) (i) failure to pay upon final maturity (after giving effect to the expiration of any applicable grace period therefor) the principal of any indebtedness of the Guarantor, the Issuer or any of their respective Material Subsidiaries, (ii) any such indebtedness becomes due and payable prior to its stated maturity otherwise than at the option of the Issuer, the Guarantor or (as the case may be) the relevant Material Subsidiaries or (provided that no event of default, howsoever described, has occurred) any person entitled to such indebtedness, or (iii) failure to pay any amount payable by the Guarantor, the Issuer or any of their respective Material Subsidiaries under any guarantee or indemnity in respect of the principal of any indebtedness of any other Person; provided, however, that no such event set forth in sub-clause (i), (ii) or (iii) shall constitute an Event of Default unless the aggregate outstanding indebtedness to which all such events relate exceeds U.S.$30,000,000 (or its equivalent in any other currency);

(f) failure by the Guarantor, the Issuer or any of their respective Material Subsidiaries to pay one or more final judgments from a court of competent jurisdiction, aggregating in excess of U.S.$30,000,000 (or its equivalent in other currencies), which judgments are not paid, discharged or stayed for a period of 60 days after the date(s) thereof or, if later, the date therein specified for payment and no further appeal or judicial review from such judgment is permissible under applicable law;

(g) (x) a decree or order is entered (i) for relief in respect of the Guarantor, the Issuer or any of their respective Material Subsidiaries in an involuntary case of winding-up or bankruptcy proceeding under applicable law or (ii) adjudging the Guarantor, the Issuer or any of their respective Material Subsidiaries bankrupt or insolvent, or (y) in connection with the bankruptcy or insolvency of the Guarantor, the Issuer or any of their respective Material Subsidiaries a decree or order is entered seeking a reorganisation, a winding up, an arrangement, an adjustment or a composition, with creditors, of or in respect of the Guarantor, the Issuer or any of their respective Material Subsidiaries under applicable law, or (z) a decree or order is entered appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Guarantor, the Issuer or any of their respective Material Subsidiaries or of all or substantially all of their respective properties, or ordering the winding up or liquidation of any of their affairs, and in each case, any such decree or order remains unstayed and in effect for a period of 60 consecutive days; except in each case, (A) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the Noteholders, or (B) in the case of a Material Subsidiary, whereby all or a substantial part of the assets or business of such Material Subsidiary are transferred to or otherwise vested in either the Issuer, the Guarantor or any of their respective Subsidiaries; or (C) a members' voluntary solvent winding-up of any Material Subsidiary, or (D) in the case of a Material Subsidiary, any disposal or sale of a Material Subsidiary to any other person on arms' length terms for market consideration;

(h) the Guarantor, the Issuer or any of their respective Material Subsidiaries institutes a voluntary case or proceeding under applicable bankruptcy, insolvency, reorganisation or similar law, or any other case or proceedings to be adjudicated bankrupt or insolvent, or the Guarantor, the Issuer or any of their respective Material Subsidiaries files a petition or answer or consent seeking reorganisation or relief under applicable bankruptcy, insolvency, reorganization or similar law, or consents to the filing of any such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of any of the Guarantor, the Issuer or any of their respective Material Subsidiaries or of all or substantially all of its respective property, or makes an assignment for the benefit of creditors, or takes corporate action in furtherance of any such action; except in each case, for the purposes of and followed by a reconstruction, amalgamation, reorganisation, disposal, merger or consolidation of a Material Subsidiary of the Guarantor or the Issuer whereby the assets or undertakings of such Material Subsidiary are vested in or otherwise transferred to the Guarantor, the Issuer or any of their respective Material Subsidiaries;

(i) (x) a distress, attachment, execution, any seizure before judgment or other legal process is levied, enforced or sued out on or against, or (y) any mortgage, charge, pledge, lien or other encumbrance, present or future, becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, manager or other similar person), in each case with respect to, all or substantially all of the property, assets, revenues or undertaking of the Issuer, the Guarantor or any of their respective Material Subsidiaries, as the case may be, and is not discharged or stayed within 60 days;

(j) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes and the Trust Deed, as applicable; (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes and the Trust Deed, as applicable, admissible in evidence in the courts of Hong Kong, is not taken, fulfilled or done;

(k) any event occurs which under the laws of the British Virgin Islands, Hong Kong or the PRC has an analogous effect to any of the events referred to in Condition 10(g) to 10(i) above;

(l) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer, the Guarantor or any of their respective Subsidiaries; or

(m) it is or will become unlawful for any of the Issuer and the Guarantor to perform or comply with any one or more of their respective obligations under any of the Notes and the Trust Deed, as applicable.

11. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings (including by way of conference call or by use of a videoconference system) of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested in writing to do so by Noteholders holding not less than 10 per cent. in aggregate nominal amount of the Notes for the time being outstanding (subject to it being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses). The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to amend the dates of maturity or redemption of the Notes, any Instalment Date or any date for payment of interest or Interest Amounts on the Notes, (ii) to reduce or cancel the nominal amount of, or any Instalment Amount of, or any premium payable on redemption of, the Notes, (iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes, (iv) if a Minimum Rate of Interest and/or a Maximum Rate of Interest, Instalment Amount or Redemption Amount is shown hereon, to reduce any such Minimum Rate of Interest and/or Maximum Rate of Interest, (v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount, (vi) to vary the currency or currencies of payment or denomination of the Notes, (vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution or (viii) to modify or cancel the Guarantee (other than as contemplated in Condition 11(b)), in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent. or at any adjourned meeting not less than 25 per cent. in aggregate nominal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution (A) in writing signed by or on behalf of the holders of not less than 90 per cent. in aggregate nominal amount of the Notes for the time being outstanding (the **Written Resolution**) or (B) passed by Electronic Consent as defined in the Trust Deed) shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. A Written Resolution and/or Electronic Consent shall take effect as an Extraordinary Resolution. A Written Resolution and/or Electronic Consent will be binding on all Noteholders and holders of Coupons, Talons and Receipts, whether or not they participated in such Written Resolution and/or Electronic Consent.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Pricing Supplement in relation to such Series.

(b) Modification of Agreements and Deeds

The Trustee may (but shall not be obliged to) agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and unless the Trustee otherwise agrees, any such modification, authorisation or waiver shall be notified by the Issuer to the Noteholders in accordance with Condition 16 (*Notices*) as soon as practicable thereafter.

(c) Entitlement of the Trustee

In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 11) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders, and the Trustee shall not be entitled to require on behalf of any Noteholder, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12. ENFORCEMENT

No holder shall have any right to institute any proceeding with respect to the Trust Deed or the Notes or any remedy thereunder, unless the Trustee (i) has failed to act for a period of 60 days after receiving written notice of a continuing Event of Default by such holder and a request to act by an Extraordinary Resolution or so requested in writing by the holders of at least 25 per cent. in aggregate principal amount of outstanding Notes; (ii) has been offered indemnity and/or secured and/or pre-funded to its satisfaction and (iii) has not received from the holders of a majority in aggregate principal amount of the outstanding Notes a written direction inconsistent with such request; provided, however that such limitations do not apply to a suit instituted by a holder for enforcement of payment of the principal of or interest on such Note on or after the due date therefor (after giving effect to the grace period specified in Condition 10(b)).

13. INDEMNIFICATION OF THE TRUSTEE AND THE AGENTS

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility including without limitation provisions relieving it from taking steps, actions or proceedings to enforce payment or taking other actions unless first indemnified and/or secured and/or pre-funded to its satisfaction, and to be paid or reimbursed for its fees, costs, expenses and indemnity payments in priority to the claims of the Noteholders. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and/or any entity (directly or indirectly) related to the Issuer or the Guarantor without accounting for any profit.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer in relation to the Notes of the duties and obligations on their part expressed in respect of the same and, unless it has express written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Noteholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Noteholders. The Trustee shall be entitled to rely conclusively on any direction, request or resolution of Noteholders given by holders of the requisite nominal amount of Notes outstanding or passed at a meeting of Noteholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Trust Deed or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Noteholders by way of an Extraordinary Resolution, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions or in the event that no such directions are received. Neither the Trustee nor any of the Agents shall be under any obligation to monitor or ascertain whether any Change of Control, Event of Default or Potential Event of Default has occurred or monitor or supervise compliance with the provisions of the Trust Deed, the Agency Agreement or these Conditions.

Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction or certification, the Trustee is entitled, prior to exercising any such discretion or power, taking any such action, making any such decision or giving any such direction or certification, to seek directions from the Noteholders by way of Extraordinary Resolution or clarification of any directions, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Noteholders or Couponholders or any other person as a result of any delay in it exercising such discretion or power, taking such action, making such decision or giving such direction or certification where the Trustee is seeking such directions or clarification of any directions from the Noteholders or in the event that no direction or clarification is given to the Trustee by the Noteholders.

The Trustee may rely without liability to Noteholders or Couponholders on any report, confirmation or certificate or any advice or opinion of any legal advisers, accountants, financial advisors, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, advice or opinion and, in such event, such report, confirmation, certificate, advice or opinion shall be binding on the Issuer, the Guarantor and the Noteholders.

Each Noteholder or Couponholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer, and the Trustee shall not at any time have any responsibility for the same and each Noteholder or Couponholder shall not rely on the Trustee in respect thereof.

14. REPLACEMENT OF NOTES, CERTIFICATES, RECEIPTS, COUPONS AND TALONS

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Issuing and Paying Agent (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer or the relevant Agent may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders or Couponholders and in accordance with the Trust Deed, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them and the NDRC Post-issuance Filing) and so that such further issue shall be consolidated and form a single series with an outstanding Series, *provided that* such supplemental documents are executed and further opinions are obtained as the Trustee may require as further set out in the Trust Deed. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes.

16. NOTICES

Notices to the holders of Registered Notes shall be in writing in the English language and mailed to them (or the first named of joint holders) by uninsured mail at their respective addresses in the Register and deemed to have been given on the fourth Business Day after the date of mailing and, so long as the Notes are listed on a stock exchange and the rules of that exchange so require, published at the Issuer's expense in a leading newspaper having general circulation in Asia (which is expected to be the Wall Street Journal Asia). Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in Asia and, so long as the Notes are listed on a stock exchange and the rules of that exchange so require, published at the Issuer's expense in a daily newspaper with general circulation in Asia (which is expected to be *The Wall Street Journal Asia*). If any such publication is not practicable, notice shall be validly given if published in another leading daily English language newspaper with general circulation in Asia. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Issuing and Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note or Global

Certificate, such notice may be given by any holder of a Note to the Issuing and Paying Agent or the Registrar through Euroclear and/or Clearstream and/or, in the case of Notes lodged with the CMU, by delivery by such holder of such notice to the CMU Lodging and Paying Agent in Hong Kong, as the case may be, in such manner as the Issuing and Paying Agent, the Registrar, the CMU Lodging and Paying Agent and Euroclear and/or Clearstream and/or the CMU, as the case may be, may approve for this purpose.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

So long as any Global Note or Global Certificate is held in its entirely on behalf of Euroclear and Clearstream or deposited with a subcustodian for and registered in the name of the Hong Kong Monetary Authority as operator of the CMU, any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream or as the case may be, CMU, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

18. GOVERNING LAW AND JURISDICTION

(a) Governing Law

The Trust Deed, the Notes, the Receipts, the Coupons and the Talons, the Agency Agreement and the Guarantee, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England.

(b) Jurisdiction

The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes, Receipts, Coupons or Talons, the Guarantee, the Agency Agreement and the Trust Deed. Accordingly, any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons, the Guarantee, the Agency Agreement and the Trust Deed (**Proceedings**) shall be brought in the courts of Hong Kong. Each of the parties irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) Agent for Service of Process

The Issuer has irrevocably appointed the Guarantor at its registered office, currently at 9/F, Man Yee Building, 68 Des Voeux Road Central, Hong Kong, to receive service of process in any Proceedings in Hong Kong. Such service shall be deemed completed on delivery to such agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such agent ceases to be able to act as such or no longer has an address in Hong Kong, the Issuer irrevocably agrees to forthwith appoint a substitute process agent in Hong Kong and deliver to the Trustee a copy of the agent's acceptance of that appointment within 30 days of such cessation. Nothing shall affect the right to serve process in any manner permitted by law.

(d) Waiver of Immunity

To the extent each of the Issuer or the Guarantor may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from the jurisdiction of any court or from set-off or any legal process (whether service or notice, attachment in aid or otherwise) with respect to itself or any of its property, it hereby unconditionally and irrevocably waives, to the fullest extent permitted by law, and agrees not to plead or claim such immunity in respect of its obligations under the terms and conditions of the Notes.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Terms used in this section that are not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Notes".

INITIAL ISSUE OF THE NOTES

Global Notes and Global Certificates may be delivered on or prior to the original issue date of the Tranche to a common depositary for Euroclear and Clearstream (the "**Common Depositary**") or a sub-custodian for the CMU.

Upon the initial deposit of a Global Note or a Global Certificate with the Common Depositary or with a sub-custodian for the CMU or registration of Registered Notes in the name of (i) any nominee for the Common Depositary or for Euroclear and Clearstream or (ii) the Hong Kong Monetary Authority as operator of the CMU and delivery of the relevant Global Note or Global Certificate to the Common Depositary or the sub-custodian for the CMU (as the case may be), Euroclear or Clearstream or the CMU (as the case may be) will credit each subscriber with a nominal amount of the Notes equal to the nominal amount thereof for which it has subscribed and paid.

The Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Pricing Supplement) other clearing systems through direct or indirect accounts with Euroclear and Clearstream held by such other clearing systems. Conversely, the Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream or other clearing systems.

RELATIONSHIP OF ACCOUNTHOLDERS WITH CLEARING SYSTEMS

Each of the persons shown in the records of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

If a Global Note or a Global Certificate is lodged with a sub-custodian for or registered with the CMU, the person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in accordance with the CMU Rules as notified by the CMU to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU (which notification, in either case, shall be conclusive evidence of the records of the CMU save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU as entitled to receive payments in respect of the Notes represented by such Global Note or Global Certificate and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Certificate are credited as being held in the CMU in respect of each amount so paid. Each of the persons shown in the records of the CMU as the beneficial holder of a particular nominal amount of the Notes represented by such Global Note or Global Certificate must look solely to the CMU Lodging and Paying Agent (as agent of the Issuer) for his share of each payment so made by the Issuer in respect of such Global Note or Global Certificate.

EXCHANGE

Temporary Global Notes

Each Temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Pricing Supplement indicates that such Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see "*Subscription and Sale — Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a Permanent Global Note or, if so provided in the relevant Pricing Supplement, for Definitive Notes.

The CMU may require that any such exchange for a Permanent Global Note is made in whole and not in part and in such event, no such exchange will be effected until all relevant account holders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) have so certified.

The holder of a Temporary Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement, exchange of the Temporary Global Note for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. The payments in respect of a Note issued under TEFRA D pursuant to Condition 6(e) of the Terms and Conditions of the Notes may not be collected without certificate as to non-U.S. beneficial ownership.

Further Issues

In respect of a Note issued under TEFRA D, for the purpose of dealing in Euroclear or Clearstream or the CMU, any further issue of the Notes by the Issuer pursuant to Condition 15 of the Terms and Conditions of the Notes may not be consolidated and form a single series with the outstanding securities of any series (including the Notes) until the exchange of interests in a Temporary Global Note for interests in a Permanent Global Note upon the relevant Certification.

Permanent Global Notes

Each Permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under the paragraph below, in part for Definitive Notes if the Permanent Global Note is held on behalf of Euroclear, Clearstream, the CMU or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

For so long as a Permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such Permanent Global Note will be exchangeable in part if so provided, and in accordance with, the Conditions relating to Partly Paid Notes.

In the event that a Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of the Notes such that it holds an amount equal to one or more Specified Denominations.

Global Certificates

The following will apply in respect of transfers of Notes represented by a Global Certificate on issue and held in Euroclear, Clearstream, the CMU or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system. Transfer of the holding of the Notes represented by any Global Certificate pursuant to Condition 2(b) of the Terms and Conditions of the Notes may only be made in part if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so provided that, in the case of the first transfer of part of a holding, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

In the event that a Global Certificate is exchanged for a definitive Certificate, such definitive Certificate shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive certificate in respect of such holding and would need to purchase a principal amount of the Notes such that it holds an amount equal to one or more Specified Denominations.

Delivery of Notes

On or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent (or, in the case of the Notes lodged with the CMU, the CMU Lodging and Paying Agent).

In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will (i) in the case of a Temporary Global Note exchangeable for a Permanent Global Note, deliver, or procure the delivery of, a Permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a Temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a Permanent Global Note to reflect such exchange or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes. Global Notes, Global Certificates and Definitive Notes will be delivered outside the United States and its possessions.

In this Offering Circular, "**Definitive Notes**" means, in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest or Instalment Amounts that have not already been paid on the Global Note and a Talon). Definitive Notes will be security printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"**Exchange Date**" means, in relation to a Temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a Permanent Global Note, a day falling not less than 60 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent (or the CMU Lodging and Paying Agent) is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The Temporary Global Notes, the Permanent Global Notes and the Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the Terms and Conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a Permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any Temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of the Notes represented by a Global Note (except with respect to a Global Note held through the CMU) will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment so made will be enfaced on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. Condition 7(f)(vi) of the Terms and Conditions of the Notes will apply to the Definitive Notes only. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation (if applicable) shall be disregarded in the definition of "**business day**" set out in Condition 7(h) of the Terms and Conditions of the Notes.

All payments in respect of the Notes represented by a Global Certificate (other than a Global Certificate held through the CMU) will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which shall be the Clearing System Business Day immediately prior to the date for payment, where "Clearing System Business Day" means Monday to Friday inclusive except December 25 and January 1.

In respect of a Global Note or Global Certificate held through the CMU, any payments of principal, interest (if any) or any other amounts shall be made to the person(s) for whose account(s) interests in the relevant Global Note or Global Certificate are credited (as set out in a CMU Instrument Position Report or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU) and, save in the case of final payment, no presentation of the relevant Global Note or Global Certificate shall be required for such purpose.

Prescription

Claims against the Issuer and/or the Guarantor in respect of the Notes that are represented by a Permanent Global Note will become void unless it is presented for payment within a period of ten years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 9 of the Terms and Conditions of the Notes).

Meetings

The holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall (unless such Permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a Permanent Global Note or of the Notes represented by a Global Certificate shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes.

Cancellation

Cancellation of any Note represented by a Temporary or Permanent Global Note that is required to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant Temporary or Permanent Global Note or its presentation to or to the order of the Issuing and Paying Agent (or, in the case of the Notes lodged with the CMU, the CMU Lodging and Paying Agent) for endorsement in the relevant schedule of such Temporary or Permanent Global Note or, in the case of a Global Certificate, by reduction in the aggregate principal amount of the Certificates in the Register, whereupon the principal amount thereof shall be reduced for all purposes by the amount so cancelled and endorsed.

Purchase

The Notes represented by a Permanent Global Note or by a Global Certificate may only be purchased by the Issuer, the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest and Instalment Amounts (if any) thereon.

Issuer's Option

Any option of early redemption of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note or by a Global Certificate shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of the Notes drawn in the case of a partial exercise of an option and accordingly no drawing of the Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear, Clearstream, the CMU or any other clearing system (as the case may be).

Noteholders' Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Permanent Global Note or by a Global Certificate may be exercised by the holder giving notice to the Issuing and Paying Agent (or, in the case of the Notes lodged with the CMU, the CMU Lodging and Paying Agent) within the time limits set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of the Notes in respect of which the option is exercised and at the same time presenting the Permanent Global Note to the Issuing and Paying Agent (or, in the case of the Notes lodged with the CMU, the CMU Lodging and Paying Agent) or to a Paying Agent acting on its behalf, for notation. Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a Global Certificate may be exercised in respect of all or some of the Notes represented by the Global Certificate.

Notices

So long as any Notes are represented by a Global Note or a Global Certificate and such Global Note or Global Certificate is held on behalf of (i) Euroclear and/or Clearstream or any other clearing system (except as provided in (ii) below), notices to the holders of the Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note or (ii) the CMU, notices to the holders of the Notes of that Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU on the business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or the relevant Global Certificate, as the case may be.

Partly Paid Notes

The provisions relating to Partly Paid Notes are not set out in this Offering Circular, but will be contained in the relevant Pricing Supplement and thereby in the Global Notes. While any instalments of the subscription moneys due from the holder of Partly Paid Notes are overdue, no interest in a Global Note representing such Notes may be exchanged for an interest in a Permanent Global Note or for Definitive Notes (as the case may be). If any Noteholder fails to pay any instalment due on any Partly Paid Notes within the time specified, the Issuer may forfeit such Notes and shall have no further obligation to their holders in respect of them.

BOARD OF DIRECTORS

The Board currently consist of nine directors, including three executive directors, three non-executive directors and three independent non-executive directors. As of the date of this Offering Circular, the members of the Board and senior management of the Guarantor are as follows:

Name	Age	Position
TAN Yueheng (譚岳衡)	58	Chairman and Executive Director
MENG Yu (孟羽)	52	Chief Executive Officer and Executive Director
CHENG Chuange (程傳閣) . .	56	Deputy Chief Executive Officer and Executive Director
LIN Zhihong (林至紅).	52	Non-executive Director
SHOU Fugang (壽福鋼).	59	Non-executive Director
PO Ying (頗穎).	49	Non-executive Director
TSE Yung Hoi (謝湧海)	68	Independent Non-executive Director
MA Ning (馬宁)	48	Independent Non-executive Director
LIN Zhijun (林志軍)	66	Independent Non-executive Director

TAN Yueheng (譚岳衡), *JP*, aged 58, is the Chairman and an Executive Director of the Guarantor. He was appointed as a Director of the Guarantor in February 2007 and the Vice Chairman of the Guarantor in June 2007. He has served as the Chairman of the Guarantor since July 2016 and was re-designated as an Executive Director of the Guarantor in October 2016. He is also a director of various subsidiaries of the Guarantor. Prior to joining the Group, Mr. TAN served as the deputy general manager of Jiang Nan Finance Limited from 1997 to 2002, the deputy general manager of CMB International Capital Corporation Limited from 1997 to 2002, a director of Great Wall Securities Limited from 1998 to 2002, the deputy general manager of China Merchants Finance Holdings Company Limited from 2002 to 2007, the chairman of the supervisory board of China Merchants Securities Co., Ltd. from 2003 to 2007, and a non-executive director of China Merchants Bank from 2004 to 2007.

Mr. TAN graduated from Hunan Institute of Finance and Economics with a bachelor's degree in Finance in July 1983. He also obtained a master's degree in Economics, with a major in Money and Banking from the Graduate School of the People's Bank of China in July 1986 and a doctorate degree in Economics from the Graduate School of Chinese Academy of Social Sciences in December 1989. Mr. TAN is a member of the Chinese People's Political Consultative Conference Gansu Provincial Committee and was appointed as a member of the Standing Committee since 13 January 2020. He was the chairman of the Chinese Securities Association of Hong Kong from March 2015 to February 2019 and has been the permanent honorary chairman since February 2019. Mr. TAN has been appointed as a Justice of the Peace by the Hong Kong Government since October 2020, a director of the Chinese General Chamber of Commerce since November 2020, and a member of HKTDC Financial Services Advisory Committee starting from 1 April 2021.

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

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

CHENG Chuange (程傳閣), aged 56, is the Deputy Chief Executive Officer and an Executive Director of the Guarantor. He joined the Group in July 2007, was appointed as the Deputy Chief Executive Officer in March 2010 and as a Director of the Guarantor in June 2010 and was re-designated as an Executive Director of the Guarantor in October 2016. He is also a director of various subsidiaries of the Guarantor. Prior to joining the Group, Mr. CHENG was recognised as a lecturer by Wuhan University in October 1992 and subsequently worked in various financial institutions, including participating in the setting up of Shenzhen City Commercial Bank and holding various positions in the bank since 1995, serving as the general manager in the planned fund department and the assistant to the president of the Guangzhou branch of China Everbright Bank since 1997 and 1998 respectively, participating in the establishment of the southern headquarters of Three Gorges Securities Company Limited from November 2000 to November 2001 and serving as the general manager of the southern headquarters from September 2001 to September 2003, and serving as a director of Concorde Securities Limited from December 2001, the deputy general manager from November 2003 and the vice president from February 2005.

Mr. CHENG graduated from Zhengzhou University with a bachelor's degree in Philosophy in June 1987. He obtained a master's degree in Philosophy from Wuhan University in July 1990 and a doctorate degree in Economics from Wuhan University in December 1997. Mr. CHENG obtained the qualification of senior economist in November 1999 and has been the vice chairman of the Chinese Securities Association of Hong Kong since June 2019.

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

Ms. LIN joined BOCOM in July 1990. She was the deputy officer (from January 2000 to June 2003) and the officer (from June 2003 to December 2004) of the finance and accounting department of BOCOM and served as the senior manager (budget management) of the financial budget department of BOCOM from December 2004 to August 2007, the deputy general manager of the financial budget department of BOCOM from August 2007 to July 2013, the general manager of the financial budget department (data and information management centre) of BOCOM from November 2013 to April 2019 and the general manager of financial services centre (business department) of BOCOM from May 2019 to September 2020.

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

SHOU Fugang (壽福鋼), aged 59, is a Non-executive Director of the Guarantor. He was appointed as a Director in August 2007 and was re-designated as a Non-executive Director of the Guarantor in October 2016. Mr. SHOU has been a director of BCOM Finance (Hong Kong) Limited since August 2000, the chief executive of BCOM Finance (Hong Kong) Limited since September 2007, and an executive director and chief executive officer of China BOCOM Insurance Company Limited since August 2019.

Mr. SHOU joined BOCOM in July 1987. He was the deputy officer (from July 1994 to November 1996) and officer (from November 1996 to November 1999) of the international banking department of BOCOM and served as the deputy general manager of the overseas business department of BOCOM from November 1999 to February 2000, the deputy general manager of BOCOM (Hong Kong Branch) from February 2000 to July 2007, the chief executive of BOCOM (Hong Kong Branch) from July 2007 to August 2017, the chairman of Bank of Communications (Hong Kong) Limited from April 2017 to February 2019 and the chairman of China BOCOM Insurance Company Limited from November 2010 to August 2019.

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

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

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

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

TSE Yung Hoi (謝湧海), aged 68, is an Independent Non-executive Director of the Guarantor. He was appointed as a Director of the Guarantor in June 2014. Mr. TSE is also currently the chairman of BOCI-Prudential Asset Management Limited. He was the deputy general manager of the investment management department and the deputy general manager of the trading department of the head office of Bank of China from 1998 to 2002, and the deputy chief executive officer of BOC International Holdings Limited from 2002 to 2012.

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

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

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

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

LIN Zhijun (林志軍), aged 66, is an Independent Non-executive Director of the Guarantor. He was appointed as a Director of the Guarantor in October 2016. Mr. LIN is an independent non-executive director of CITIC Dameng Holdings Limited (stock code: 1091), China Everbright Limited (stock code: 0165), Sinotruk (Hong Kong) Limited (stock code: 3808) and Dali Foods Group Company Limited (stock code: 3799), all of which are listed on the SEHK. He was an independent non-executive director of Springland International Holdings Limited (withdrawal of listing on the SEHK) from February 2008 to March 2020.

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

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

SENIOR MANAGEMENT

Name	Age	Position
TAN Yueheng (譚岳衡)	58	Chairman and Executive Director
MENG Yu (孟羽)	52	Chief Executive Officer and Executive Director
CHENG Chuange (程傳閣) . .	56	Deputy Chief Executive Officer and Executive Director
XI Xuanhua (席絢樺)	48	Deputy Chief Executive Officer
SU Fen (蘇奮)	49	Deputy Chief Executive Officer

For Mr. TAN Yueheng's, Mr. MENG Yu's and Mr. CHENG Chuange's profiles, please see "*Directors and Senior Management — Board of Directors*".

XI Xuanhua (席絢樺), aged 48, is a Deputy Chief Executive Officer of the Guarantor and a member of the Executive Committee. She was appointed as a Deputy Chief Executive Officer of the Guarantor and a member of the Executive Committee in July 2017. She is also a director of various subsidiaries of the Guarantor. Ms. XI joined the Group in August 2005 and has held various positions in the Guarantor. She was a director and head of the China sales desk from 2005 to 2007, an executive director and head of the China sales department from 2007 to 2009, a managing director and head of the equity sales department from 2009 to 2013 and a managing director and the head of the institution and equity business from 2013 to 2015. Ms. XI was a managing director and general manager of BOCOM International Securities from March 2015 to July 2017. Immediately prior to joining the Group in August 2005, Ms. XI was an associate director of the China Sales of ICEA Securities Limited.

Ms. XI graduated from Fudan University with a bachelor's degree in Economics in July 1995. She also obtained an EMBA from Shanghai Jiao Tong University in June 2012. Ms. XI has been appointed as the vice chairman of the Chinese Asset Management Association of Hong Kong since March 2020.

SU Fen (蘇奮), aged 49, is a Deputy Chief Executive Officer of the Guarantor and a member of the Executive Committee. He was appointed as a Deputy Chief Executive Officer of the Guarantor and a member of the Executive Committee in July 2018. He is also a director of various subsidiaries of the Guarantor. From 1994 to 2000, Mr. SU held various positions in the foreign exchange department, the credit management department and the marketing department of BOCOM (Guangzhou Branch). In 2001, he was the deputy general manager of the marketing department of BOCOM (Guangzhou Branch). From 2002 to 2007, he was relocated to work in the credit department of BOCOM (New York Branch) as the deputy manager and later the manager. From 2007 to 2010, he was the senior manager (Merger and Acquisition) of the investment management department of BOCOM. In 2010, he became a director of the integrated management department of BOCOM Fund. In 2011, he was promoted to the position of chief compliance officer of BOCOM Fund and had assumed such role until joining the Group in July 2018.

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

COMPANY SECRETARY

YI Li (伊莉), aged 42, is the Company Secretary of the Guarantor. Ms. YI has performed her duties as one of the Guarantor's joint company secretaries since the Guarantor's listing on the SEHK and acts as the sole company secretary with effect from 19 May 2020. Ms. YI joined the Guarantor in December 2012 and has been the Head of Executive Office of the Group since March 2016 and has been the Head of Human Resources Department since 4 June 2018. Prior to joining the Group, she worked in a judicial organisation in the PRC from July 2005 to August 2012.

Ms. YI graduated from Shandong University of Finance and Economics (formerly known as Shandong Economics University) with a Bachelor's degree in International Finance in July 2001. She also obtained a Master's degree in Law from Peking University in June 2005. Ms. YI also obtained the PRC legal professional qualification certificate in February 2005.

BOARD COMMITTEES

The Board has established the Executive Committee, the Audit and Risk Management Committee, the Remuneration Committee and the Nomination Committee.

Executive Committee

The primary duty of the Executive Committee is to consider and approve various matters in relation to the Group's day-to-day operations including but not limited to transactions in relation to various businesses of the Group and certain corporate actions within their respective specified limits of authority thresholds. As of the date of this Offering Circular, the Executive Committee comprises 5 members, namely, Mr. TAN Yueheng (Chairman), Mr. MENG Yu and Mr. CHENG Chuange, all of whom are Executive Directors of the Guarantor, and Ms. XI Xuanhua and Mr. SU Fen, both of whom are Deputy Chief Executive Officers of the Guarantor.

Audit and Risk Management Committee

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

Remuneration Committee

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

Nomination Committee

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, assess the independence of the Independent Non-executive Directors and make recommendations to the Board on the appointment and re-appointment of Directors and succession planning for Directors. The nomination of Directors shall be made in accordance with the criteria set in the nomination policy, with due regard for the benefits of board diversity, as set out under the board diversity policy of the Guarantor. As of the date of this Offering Circular, the Nomination Committee comprises 5 members, namely, Mr. TAN Yueheng (Chairman), an Executive Director, Ms. PO Ying, a Non-executive Director, Mr. TSE Yung Hoi, Mr. MA Ning and Mr. LIN Zhijun, all of whom are Independent Non-executive Directors.

FORM OF PRICING SUPPLEMENT

[**MiFID II product governance/Professional investors and ECPs only target market —** Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, **MiFID II**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**UK MIFIR product governance/Professional investors and ECPs only target market** — Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a **distributor**) should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

PROHIBITION OF SALES TO EEA RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (**EEA**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, **MiFID II**); (ii) a customer within the meaning of Directive (EU) 2016/97 (the **Insurance Distribution Directive**), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the **Prospectus Directive**). Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the **PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS — The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (**UK**). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA which were relied on immediately before exit day to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the **UK PRIIPs Regulation**) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

[Notification under Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (the **SFA)** — [To insert notice if classification of the Notes is not "prescribed capital markets products", pursuant to Section 309B of the SFA or "Excluded Investment Products"].][25]

Pricing Supplement dated [•]

BOCOM International Blossom Limited

Issue of [Aggregate Nominal Amount of Series]
[Title of Notes] (the Notes)
under the U.S.$500,000,000
Medium Term Note Programme

This document constitutes the Pricing Supplement relating to the issue of Notes described herein.

[*Include the below wording in brackets if the Notes are to be listed on The Stock Exchange of Hong Kong Limited.*]

[This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (**Professional Investors**) only.

The Stock Exchange of Hong Kong Limited has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on The Stock Exchange of Hong Kong Limited is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer, the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Notice to Hong Kong investors: The Issuer and the Guarantor confirm that the Notes are intended for purchase by Professional Investors only and will be listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer and the Guarantor confirm that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

This document, together with the Offering Circular, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.]

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Circular dated [•] 2021 [and the supplemental [Offering Circular] dated [•]]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [as so supplemented].

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[25] Relevant Dealer(s) to consider whether it/they have received the necessary product classification from the Issuer prior to the launch of the offer, pursuant to Section 309B of the SFA. If there is a change as to product classification for the relevant drawdown, from the upfront classification embedded in the programme documentation, then the legend is to be completed and used (if no change as to product classification, then the legend may be deleted in its entirety).

[*The following alternative language applies if the first issue of a Series which is being increased was issued under Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the **Conditions**) set forth in the Offering Circular dated [•] 2021. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [•] 2021 [and the supplemental Offering Circular dated [•]], save in respect of the Conditions which are extracted from the Offering Circular dated [•] 2021 and are attached hereto.] [Full information on the Issuer, the Guarantor and the offer of the Notes is only available on the basis of the combination of the Offering Circular[, the supplementary Offering Circular dated [date]] and this Pricing Supplement.]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Pricing Supplement.*]

1.		Issuer:	BOCOM International Blossom Limited
2.	(a)	Status of the Notes:	Senior
	(b)	Guarantee:	Guaranteed by BOCOM International Holdings Company Limited
3.	[(a)]	Series Number:	[•]
	[(b)	Tranche Number (if fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)]:	[•]
4.		Specified Currency or Currencies:	[•]
5.		Aggregate Nominal Amount:	[•]
6.	[(a)]	Issue Price:	[•] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	[(b)]	Net Proceeds:	[•] (*Required only for listed issues*)]
7.	(a)	Specified Denominations:	[•]
	(b)	Calculation Amount:	[•]
8.	(a)	Issue Date:	[•]
	(b)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
9.		Maturity Date:	[*specify date or (for Floating Rate Notes) Interest Payment Date falling on or nearest to the relevant month and year*][26]

[26] Note that for Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification it will be necessary to use the second option here.

10.	(a) Interest Basis:	[[•] per cent. Fixed Rate, [•] per cent. per annum] [Floating Rate, [specify reference rate] +1- [•] per cent.] [Zero Coupon] [Other (specify)] (further particulars specified below)
	(b) Default Rate:	[[•] (*specify*)/None]
11.	Redemption/Payment Basis:	[Redemption at par] [Partly Paid] [Installment] [Other (specify)]
12.	Change of Interest or Redemption/ Payment Basis:	[*Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis*]
13.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
14.	NDRC Registration/Confirmation:	[*Insert registration certificate date*]
15.	Listing:	[[•] (*specify*)/None]
16.	Place of Payment:	[*Specify*]
17.	Method of distribution:	[Syndicated/Non-syndicated]
18.	Private Bank Rebate/Commission	[Applicable/Not Applicable]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

19.	Fixed Rate Note Provisions	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a) Rate[(s)] of Interest:	[•] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]
	(b) Interest Payment Date(s):	[•] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Business Center(s) for the definition of "Business Day*"]/not adjusted][27]

[27] Note that for certain Hong Kong dollar and Renminbi denominated Fixed Rate Notes the Interest Payment Dates are subject to modification and the following words should be added: "provided that if any Interest Payment Date falls on a day which is not a Business Day, the Interest Payment Date will be the next succeeding Business Day unless it would thereby fall in the next calendar month in which event the Interest Payment Date shall be brought forward to the immediately preceding Business Day. For these purposes, "Business Day" means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and currency deposits) in Hong Kong and [•]."

	(c)	Fixed Coupon Amount[(s)]:	[•] per Calculation Amount[28]
	(d)	Broken Amount(s):	[•] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [•]
	(e)	Day Count Fraction:	[30/360/Actual/Actual (ICMA/ISDA)/other]
	(f)	[Determination Dates:	[•] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)]
	(g)	Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/give details]
20.	Floating Rate Note Provisions		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph.)*
	(a)	Interest Period(s):	[•]
	(b)	Specified Interest Payment Dates:	[•]
	(c)	Interest Period Date:	[•] (*Not applicable unless different from Interest Payment Date*.)
	(d)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
	(e)	Business Center(s):	[•]
	(f)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/Screen Rate Determination (SOFR)/ISDA Determination/other (*give details*)]
	(g)	Party responsible for calculating the Rate(s) of Interest and Interest Amount(s)):	[Bank of Communications Co., Ltd. Hong Kong Branch/[•]]
	(h)	Screen Rate Determination:	
		• Reference Rate:	[•]
		• Interest Determination Date(s):	[•]

[28] For Hong Kong dollar and Renminbi denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following wording is appropriate: "Each Fixed Coupon Amount shall be calculated by applying the Rate of Interest to each Calculation Amount, multiplying such sum by the actual number of days in the Accrual Period (as defined in Condition 6(a)(i)) divided by 365 and rounding the resultant figure to the nearest [HK$0.01 or RMB0.01, HK$0.005 or RMB0.005] being rounded upwards."

- Relevant Screen Page: [•]

(i) Screen Rate Determination (SOFR):

- Reference Rate: SOFR Benchmark — [Simple SOFR Average/ Compounded SOFR Average/SOFR Index Average]

- Compound SOFR Average Method: [Not Applicable/SOFR Observation Lag/SOFR Observation Shift/SOFR Payment Delay/SOFR Lockout — *used for Compound SOFR Average only*]

- Interest Determination Date(s): [The [•] U.S. Government Securities Business Day prior to the last day of each Interest Accrual Period — *only applicable in the case of Simple SOFR Average/ SOFR Observation Lag/SOFR Observation Shift/SOFR Lockout/SOFR Index Average*]

  [The Interest Period Date at the end of each Interest Period, provided that the Interest Determination Date with respect to the final Interest Accrual Period will be the U.S. Government Securities Business Day immediately following the relevant SOFR Rate Cut-Off Date — *only applicable in the case of SOFR Payment Delay*]

- Lookback Days: [[•] U.S. Government Securities Business Days — *used for SOFR Lag only*]/[Not Applicable]

- SOFR Observation Shift Days: [[•] U.S. Government Securities Business Days — *used for the SOFR Observation Shift or SOFR Index Average only*]/[Not Applicable]

- SOFR Rate Cut-Off Date: [The date falling [•] Business Days prior to the end of each Interest Accrual Period, the Maturity Date or the date fixed for redemption, as applicable — *used for only Simple SOFR Average (if applicable), Compound SOFR Average — SOFR Payment Delay or SOFR Lockout only*]/[Not Applicable]

- Interest Payment Delay Days: [•] Business Days — *used for SOFR Payment Delay only*]/[Not Applicable]

- SOFR $\text{Index}_{\text{Start}}$: [Not Applicable]/[[•] U.S. Government Securities Business Days — *used for SOFR Index only*]

- SOFR $\text{Index}_{\text{End}}$: [Not Applicable]/[[•] U.S. Government Securities Business Days — *used for SOFR Index only*]

(j) ISDA Determination:

- Floating Rate Option: [•]

- Designated Maturity: [•]

- Reset Date: [•]

	(k)	Margin(s):	[+/-][•] per cent. per annum
	(l)	Minimum Rate of Interest:	[•] per cent. per annum
	(m)	Maximum Rate of Interest:	[•] per cent. per annum
	(n)	Day Count Fraction:	[•]
	(o)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[Benchmark Event (other than Floating Rate Notes which specify the Reference Rate as SOFR)/Benchmark Event (SOFR)/specify if fallback provisions different from those set out in the Conditions]
21.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a)	Amortisation Yield:	[•] per cent. per annum
	(b)	Any other formula/basis of determining amount payable:	[•]
22.	**Index-Linked Interest Note Provisions**		[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Index/Formula:	[*give or annex details*]
	(b)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Agent]):	[•]
	(c)	Provisions for determining Rate of Interest and/or Interest Amount where calculation by reference to Index and/or Formula is impossible or impracticable or otherwise disrupted:	[•]
	(d)	Interest Periods:	[•]
	(e)	Specified Interest Payment Dates:	[•]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(g)	Business Center(s):	[•]
	(h)	Minimum Rate of Interest:	[•] per cent. per annum
	(i)	Maximum Rate of Interest:	[•] per cent. per annum

	(j) Day Count Fraction:	[•]
23.	**Dual Currency Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
	(b) Party, if any, responsible for calculating the Rate(s) of Interest and Interest Amount(s) (if not the [Agent]):	[•]
	(c) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[•]
	(d) Person at whose option Specified Currency(ies) is/are payable:	[•]
24.	**Default Rate**	[[•] per cent. per annum/Not Applicable]

PROVISIONS RELATING TO REDEMPTION

25.	**Call Option**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Optional Redemption Date(s):	[•]
	(b) Optional Redemption Amount(s) of each Note and specified denomination method, if any, of calculation of such amount(s):	[•] per Calculation Amount
	(c) If redeemable in part:	
	(i) Minimum Redemption Amount:	[•] per Calculation Amount
	(ii) Maximum Redemption Amount:	[•] per Calculation Amount
	(d) Notice period:	[•]
26.	**Put Option**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(a) Optional Redemption Date(s):	[•]
	(b) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s):	[•] per Calculation Amount

	(c) Notice period:	[•]
27.	**Final Redemption Amount of each Note**	[•] per Calculation Amount
28.	**Early Redemption Amount**	
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[•] per Calculation Amount
29.	**Other Redemption/Repurchase Events**	Condition 6(c) (Redemption for Taxation Reasons) and Condition 6(f) (Redemption upon a Change of Control) are applicable [and [•] (*give details*)]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

30.	(a) Form of Notes:	[Bearer Notes: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [•] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] (may not be used when the D Rules apply) (*N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 7 includes language substantially to the following effect: "EUR100,000 and integral multiples of EUR1,000 in excess thereof up to and including EUR199,000". In addition, the "limited circumstances specified in the Permanent Global Note" option may have to be amended to permit such Specified Denomination construction. Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.*) [Registered Notes]
	(b) Applicable TEFRA exemption:	[C Rules/D Rules/Not Applicable ("Not Applicable" may only be used in the case of Bearer Notes with a maturity of one year or less (taking into account any unilateral extension or rollover rights) or Registered Notes)]

31.	Talons for future Coupons or Receipts to be attached to Definitive Bearer Notes (and dates on which such Talons mature):	[Yes/No. If yes, give details]
32.	Financial Center(s) or other special provisions relating to Payment Dates:	[*Note that this paragraph relates to the Payment Date and Place of Payment, and not interest period end dates, to which sub paragraphs [20(e) and 22(g)] relate*]
33.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
34.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*]
35.	Redenomination, Renominalisation and Reconventioning:	[Not Applicable/The provisions [annexed to this Pricing Supplement] apply]
36.	Consolidation provisions:	[Not Applicable/The provisions [In Condition [•]]
37.	Use of Proceeds:	[Not Applicable/*give details*]
38.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

39.	(a) If syndicated, names of Managers:	[Not Applicable/*give names*]
	(b) Stabilising Manager (if any):	[Not Applicable/*give names*]
40.	If non-syndicated, name of Dealer:	[Not Applicable/*give names*]
41.	U.S. selling restrictions:	Regulation S, Category [1/2]
42.	Prohibition of Sales to EEA Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.*)

43.	Prohibition of Sales to UK Retail Investors:	[Applicable/Not Applicable] (*If the Notes clearly do not constitute "packaged" products, "Not Applicable" should be specified. If the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.*)
44.	Additional selling restrictions:	[Not Applicable/*give details*]
45.	Interests of [Managers] [Dealers] involved in the issue/offer:	[*Give details*.]

OPERATIONAL INFORMATION

46.	ISIN Code[/CMU Instrument Code]:	[•]
47.	Common Code:	[•]
48.	LEI Code of Issuer:	2138009XYMCVIMXQ9W78
49.	Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking S.A. and the relevant identification number(s):	Not Applicable/*give name(s) and number(s)*
50.	Delivery:	Delivery [against/free of] payment
51.	Additional Paying Agent(s) (if any):	[•]
52.	Additional Registrar (if any):	[•]

[PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on [The Stock Exchange of Hong Kong Limited/[•]] of the Notes described herein pursuant to the U.S.$500,000,000 Guaranteed Medium Term Note Programme of the Issuer.]

RESPONSIBILITY

The Issuer and the Guarantor accept responsibility for the information contained in this Pricing Supplement.

Signed on behalf of **BOCOM International Blossom Limited**

By: ________________________________

Duly Authorised

Signed on behalf of **BOCOM International Holdings Company Limited**

By: ________________________________

Duly Authorised

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream or CMU Service currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer, the Dealers or the Arrangers takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Trust Deed will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to, or payments made on account of, such beneficial ownership interests.

The relevant Pricing Supplement will specify the Clearing System(s) applicable for each Series.

THE CLEARING SYSTEMS

Euroclear and Clearstream

Euroclear and Clearstream each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to Euroclear or Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream will be credited, to the extent received by the Issuing and Paying Agent, to the cash accounts of Euroclear or Clearstream participants in accordance with the relevant system's rules and procedures.

CMU

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the Hong Kong Monetary Authority (the "**HKMA**") for the safe custody and electronic trading between the members of this service ("**CMU Members**") of capital markets instruments ("**CMU Instruments**") which are specified in the CMU Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Instruments issued by a CMU Member or by a person for whom a CMU Member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the services is open to all members of the Hong Kong Capital Markets Association, "authorized institutions" under the Banking Ordinance (Cap. 155 of the Laws of Hong Kong) and other domestic and overseas financial institutions at the discretion of the HKMA.

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European clearing systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU Instruments. Instead, the HKMA advises the lodging CMU Member (or a designated paying agent) of the identities of the CMU Members to whose accounts payments in respect of the relevant CMU Instruments are credited, whereupon the lodging CMU Member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Members or provide any such certificates on behalf of CMU Members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest in the Instruments through an account with either Euroclear or Clearstream will hold that interest through the respective accounts which Euroclear and Clearstream each have with the CMU Service.

BOOK-ENTRY OWNERSHIP

Bearer Notes

The Issuer may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of any Series of Bearer Notes. The Issuer may also apply to have Bearer Notes accepted through the CMU Service. In respect of Bearer Notes, a Temporary Global Note and/or a Permanent Global Note will be deposited with a common depositary for Euroclear and Clearstream or a sub-custodian for the CMU Service. Transfers of interests in a Temporary Global Note or a Permanent Global Note will be made in accordance with the normal market debt securities operating procedures of the Euroclear, Clearstream or as the case may be, the CMU Service.

Registered Notes

The Issuer may make applications to Euroclear and Clearstream for acceptance in their respective book-entry systems in respect of the Notes to be represented by a Registered Global Security. Each Registered Global Security will have an International Securities Identification Number ("**ISIN**") and a Common Code. Investors in the Notes of such Series may hold their interests in a Registered Global Security through Euroclear or Clearstream. Registered Global Notes may also be deposited with a sub-custodian for the HKMA as operator of the CMU Service.

Each Registered Global Security will be subject to restrictions on transfer contained in a legend appearing on the front of such Registered Global Security, as set out under "*Subscription and Sale*".

All Registered Notes will initially be in the form of a Registered Global Security. Certificated securities will be available, in the case of the Notes initially represented by a Registered Global Security, in amounts specified in the applicable Pricing Supplement.

SUBSCRIPTION AND SALE

SUMMARY OF DEALER AGREEMENT

Subject to the terms and conditions contained in a dealer agreement dated 4 June 2021, and as further amended and supplemented from time to time (the "**Dealer Agreement**"), between the Issuer, the Guarantor, the Dealers and the Arrangers, the Notes may be offered on a continuous basis by the Issuer to the Dealers. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer(s). The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Notes will be issued on a syndicated or non-syndicated basis.

The Issuer and the Guarantor will pay the relevant Dealer a commission as agreed between them in respect of the Notes subscribed by it. The Issuer and the Guarantor have agreed to reimburse the Arrangers for certain of its expenses incurred in connection with the establishment of the Programme and the Dealers for certain of their activities in connection with the Programme.

The Dealer Agreement provides that the obligations of the Dealers to purchase the Notes are subject to certain conditions. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe the Notes in certain circumstances prior to payment for such Notes being made to the Issuer and the Guarantor.

The Issuer and the Guarantor have agreed, jointly and severally, to indemnify each of the relevant Dealer(s), each of their respective directors, officers and employees against certain liabilities in connection with the sale and offer of the Notes.

Each Series or Tranche of Notes is a new issue of securities with no established trading market. Any one or more of the Dealers may make a market in the Notes but are not obliged to do so and may discontinue any market-marking, if commenced, at any time without notice. No assurance can be given as to the liquidity of the trading markets for the Notes.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Dealers or their affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the relevant Dealer or its affiliate on behalf of the Issuer in such jurisdiction.

STABILISATION

In connection with the issue of the Notes in any Series or Tranche under the Programme, the Dealer or Dealers (if any) named as the Stabilisation Manager(s) (or any person(s) acting for it (the "**Stabilisation Manager(s)**") in the applicable Pricing Supplement may, to the extent permitted by applicable laws and directives, over-allot the Notes or effect transactions with a view to supporting the market price of the Notes in such a Series at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager shall act as principal and not as agent of the Issuer or the Guarantor. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of a Stabilisation Manager) will undertake stabilisation action. Any loss or profit sustained as a consequence of any such over-allotment or stabilisation shall be for the account of the Dealers.

OTHER RELATIONSHIPS

The Dealers and the Arrangers and certain of their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Dealers and the Arrangers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services and/or Transactions with the Issuer and the Guarantor for which they have received, or will receive, fees and expenses.

In connection with the offering of the Notes, the Dealers and the Arrangers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor, may act as investors and place orders, receive allocations and trade the Notes for their own account and such orders, allocations or trade of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering of the Notes. Accordingly, references herein to the offering of the Notes should be read as including any offering of the Notes to the Dealers and the Arrangers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Notes may be impacted.

Furthermore, it is possible that a significant portion of the Notes may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in the Notes may be constrained. The Issuer, the Guarantor, the Dealers and the Arrangers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

In the ordinary course of their various business activities, the Dealers and the Arrangers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer, the Guarantor, any other member of the Group or their respective affiliates, including the Notes and could adversely affect the trading price and liquidity of the Notes. The Dealers and the Arrangers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Issuer or the Guarantor and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuer or the Guarantor.

SELLING RESTRICTIONS

The Notes have not been and will not be registered under the laws of any jurisdiction, nor has any other action been taken, nor will any action be taken, by the Issuer, the Guarantor, the Dealers or any other person that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Circular or any supplement hereto or thereto, or any other offering material relating to the Issuer, the Guarantor or the Notes, in any country or jurisdiction where action for any such purpose may be required. The offer and sale of the Notes, and the delivery of this Offering Circular, are restricted by law in certain jurisdictions and the Notes may not be offered or sold, and this Offering Circular may not be distributed, in any jurisdiction under circumstances where such offer, sale or distribution would be prohibited or restricted by law.

Without limiting the foregoing, prospective purchasers of the Notes should be aware of the following restrictions:

United States of America

In respect of Notes offered or sold in reliance on Category 1 as specified in the applicable Pricing Supplement, the Notes and the Guarantee have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act. Each Dealer has represented and each further Dealer appointed under the Programme will be required to represent that it has not offered or sold the Notes, and agrees that it will not offer or sell, any Notes constituting part of its allotment in the United States except in accordance with Rule 903 of Regulation S.

Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Dealer has represented and each further dealer appointed under the Programme will be required to represent that it has not entered and agrees that it will not enter into any contractual arrangement with any distributor (as such term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the Issuer.

In respect of Notes offered or sold in reliance on Category 2 as specified in the applicable Pricing Supplement, the Notes and the Guarantee have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States, and the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from or not subject to, the registration requirements of the Securities Act. Subject to the provisions below, each Dealer has represented and each further Dealer appointed under the Programme will be required to represent that it has not offered or sold any Notes, and will not offer or sell any Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of all Notes of the Tranche of which such Notes are a part, as determined and certified as provided below, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S of the Securities Act. Each Dealer has also agreed, and each further Dealer appointed under the Programme will be required to agree, that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the securities laws of any state or other jurisdiction of the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of an identifiable Tranche of Notes of which such Notes are a part, as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the relevant lead manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Terms used in the above provision have the meanings given to them by Regulation S.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it, its affiliates or any person acting on its or their behalf has not entered and will not enter into any contractual arrangement with any distributor (as that term is defined in Regulation S) with respect to the distribution or delivery of the Notes, except with its affiliates or with the prior written consent of the Issuer.

In addition, until 40 days after the commencement of the offering of any identifiable tranche of such Notes, an offer or sale of Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations.

Unless the relevant pricing supplement or the relevant subscription agreement relating to one or more Tranches specifies that the applicable TEFRA exemption is either "TEFRA D" or "not applicable", in relation to each Tranche of Bearer Notes:

(a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") (the "**D Rules**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that (i) it has not offered or sold, and agrees that during a 40-day restricted period it will not offer or sell, Notes to a person who is within the United States or its possessions or to a United States person, and (ii) it has not delivered and shall not deliver within the United States or its possessions definitive Notes that are sold during the restricted period;

(b) each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has and agrees that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it is acquiring the Bearer Notes for purposes of resale in connection with their original issue and if it retains Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section l.163-5(c)(2)(i)(D)(6); and

(d) with respect to each affiliate that acquires from it Notes for the purpose of offering or selling such Notes during the restricted period, each Dealer either (i) repeats and confirms the representations and agreements contained in subparagraphs (a), (b) and (c) on such affiliate's behalf; or (ii) agrees that it will obtain from such affiliate for the benefit of the Issuer such representations and warranties.

Terms used in the above provision have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and the U.S. Treasury regulations promulgated thereunder, including the D Rules.

To the extent that the relevant pricing supplement or the relevant subscription agreement relating to one or more Tranches of Bearer Notes specifies that the applicable TEFRA exemption is "TEFRA C", under U.S. Treas. Reg. § 1.163-5(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) ("**TEFRA C**"), to set out the criteria for "foreign targeted obligations" that are exempt from the excise tax under Section 4701(b)(1)(B) of the Code, such Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, in connection with the original issuance of such Bearer Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if either of them is within the United States or its possessions and will not otherwise involve its U.S. office in the offer and sale of such Bearer Notes.

Terms used in the above provision have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and the U.S. Treasury regulations promulgated thereunder, including TEFRA C and Notice 2012–20.

Each issuance of index-, commodity- or currency-linked Notes shall be subject to such additional U.S. selling restrictions as the relevant Dealer(s) shall agree with the Issuer as a term of the issuance and purchase or, as the case may be, subscription of such Notes. Each relevant Dealer has agreed that it shall offer, sell and deliver such Notes only in compliance with such additional U.S. selling restrictions.

This Offering Circular has been prepared by the Issuer and the Guarantor for use in connection with the offer and sale of the Notes outside the United States. The Issuer, the Guarantor and the Dealers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Offering Circular does not constitute an offer to any person in the United States. Distribution of this Offering Circular by any non-U.S. person outside the United States to any U.S. person or to any other person within the United States, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any such U.S. person or other person within the United States, is prohibited.

Hong Kong

In relation to each Series of Notes to be issued by the Issuer under the Programme, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, except for Notes which are a "structured product" as defined in the SFO, other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**Companies (Winding Up and Miscellaneous Provisions) Ordinance**") or which do not constitute an offer to the public within the meaning of the Companies (Winding Up and Miscellaneous Provisions) Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

PRC

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the Notes are not being offered or sold, and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong Special Administrative Region and the Macau Special Administrative Region or Taiwan), except as permitted by the securities laws or other relevant laws or regulations of the PRC.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

- to an institutional investor or to a relevant person or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; or

- where no consideration is or will be given for the transfer; or

- where the transfer is by operation of law; or

- as specified in Section 276(7) of the SFA; or
- as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

*Singapore SFA Product Classification: In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), unless otherwise specified before an offer of the Notes, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Notes are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).*

Prohibition of Sales to EEA Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the EEA. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

  (i) a retail client as defined in point (11) of Article 4(1) of Directive 14/65/EU (as amended, "**MiFID II**"); or

  (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

  (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"); and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA Retail Investors" as "Not Applicable", in relation to each member state of the EEA, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of the Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State except that it may make an offer of such Notes to the public in that Member State:

(c) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Member State, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(d) at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(e) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(f) at any time in any other circumstances falling within Article 3(2) of the Prospectus Regulation,

provided that no such offer of the Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of the Notes to the public**" in relation to any Notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Prohibition of sales to UK Retail Investors

Unless the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

   (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

(iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"); and

(b) the expression an "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to UK Retail Investors" as "Not Applicable", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not made and will not make an offer of the Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to the public in the United Kingdom except that it may make an offer of such Notes to the public in the United Kingdom:

(a) if the Pricing Supplement in relation to the Notes specifies that an offer of those Notes may be made other than pursuant to section 86 of the FSMA (a "**Public Offer**"), following the date of publication of a prospectus in relation to such Notes which either (i) has been approved by the Financial Conduct Authority, or (ii) is to be treated as if it had been approved by the Financial Conduct Authority in accordance with the transitional provision in Regulation 74 of the Prospectus (Amendment etc.) (EU Exit) Regulations 2019, provided that any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Public Offer, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Public Offer;

(b) at any time to any legal entity which is a qualified investor as defined in Article 2 of the UK Prospectus Regulation;

(c) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in Article 2 of the UK Prospectus Regulation) in the United Kingdom subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within section 86 of the FSMA,

provided that no such offer of the Notes referred to in (b) to (d) above shall require the Issuer or any Dealer to publish a prospectus pursuant to section 85 of the FSMA or supplement a prospectus pursuant to Article 23 of the UK Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of the Notes to the public**" in relation to any Notes means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree that, except as permitted by the relevant subscription agreement:

(e) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Acts 2000 (the "**FSMA**") by the Issuer;

(f) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(g) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Macau

Each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that the Notes may not be promoted, distributed, sold or delivered in Macau, or any document relating to the Notes be distributed or circulated in Macau, except under the terms of and in compliance with the Macau Financial System Act and any other laws in Macau that may apply to the offer and sale of the Notes in Macau. The Notes are not registered or otherwise authorised for public offer under the Financial System Act of Macau, thus may not be offered or sold in Macau, unless such offer is made by Macau licensed entities according to the Macau Financial System Act and upon their communication to the Macau Monetary Authority, in observation of the guidelines and recommendations issued by the Macau local regulatory authority from time to time.

Taiwan

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold, and will not offer or sell, any Notes, directly or indirectly, in Taiwan, to investors other than Professional Institutional Investors as defined under Article 4 of the Financial Consumer Protection Act, unless otherwise permitted by the laws and regulations of Taiwan.

British Virgin Islands

No invitation whether directly or indirectly may be made to the public in the British Virgin Islands to subscribe for the Notes.

General

These selling restrictions may be modified by the agreement of each of the Issuer, the Guarantor and the Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of the Notes to which it relates or in a supplement to this Offering Circular.

TAXATION

The following summary of certain BVI, PRC and Hong Kong tax consequences of the purchase, ownership and disposition of Notes is based upon applicable laws, rules and regulations in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any person acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes.

Persons considering the purchase of Notes should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of the Notes.

BRITISH VIRGIN ISLANDS

Income Tax

Payments of interest and principal on the Notes will not be subject to taxation in the British Virgin Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes nor will gains derived from the disposal of the Notes be subject to British Virgin Islands income or corporation tax, provided that the payments are made to persons who are not resident in the British Virgin Islands.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not resident in the British Virgin Islands with respect to the Notes.

If neither the Guarantor nor any of its subsidiary holds an interest in real estate in the British Virgin Islands, no stamp duty is payable in respect of the issue of the Notes or on an instrument of transfer in respect of the Notes.

Withholding Tax

There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer.

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Stamp Duty

Stamp duty will not be payable on the issue of Bearer Notes provided that either:

(i) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap. 117) of Hong Kong (the "**SDO**").

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Bearer Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfer of Registered Notes provided that either:

(i) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(ii) such Registered Notes constitute loan capital (as defined in the SDO).

If stamp duty is payable in respect of the transfer of Registered Notes it will be payable at the rate of 0.2 per cent. (of which 0.1 per cent. is payable by the seller and 0.1 per cent. is payable by the purchaser) normally by reference to the consideration or its value, whichever is higher. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

PRC

The following summary describes the principal PRC tax consequences of ownership and disposition of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-resident Noteholders in this "Taxation — PRC" section. In considering whether to invest in the Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the EIT Law, an income tax is imposed on payments of interest by way of withholding in respect of the Notes, made by the Issuer or the Guarantor (if the Issuer or the Guarantor (as applicable) is regarded as a PRC enterprise under the EIT Law) to non-resident Noteholders, including non-resident enterprises and non-resident individuals. The current rates of such income tax are 20 per cent. for non-resident individuals and 10 per cent. for non-resident enterprises of the gross amount of the interest. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management bodies" of the Issuer or the Guarantor (as applicable) are within the territory of the PRC, the Issuer or the Guarantor (as applicable) may be held to be a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25% in respect of its income sourced from both within and outside the PRC. If the Issuer or the Guarantor is regarded as a PRC tax resident enterprise, such enterprise income tax shall be withheld by the Issuer or the Guarantor (as applicable) that is acting as the obligatory withholder and it shall withhold the tax amount from each payment due.

However, the tax so charged on interests paid on the Notes to non-resident Noteholders who or which are residents of Hong Kong (including enterprise holders and individual holders) as defined under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) which was signed on 21 August 2006 (the "**Tax Arrangement**") for the purpose of the avoidance of double taxation will be 7 per cent. of the gross amount of the interest pursuant to the Tax Arrangement and relevant interpretation of the Tax Arrangement formulated by the State Administration of Taxation of China.

To the extent that the PRC has entered into arrangements relating to the avoidance of double taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding income tax, such lower rate may apply to qualified non-resident Noteholders.

In addition, pursuant to Circular 36, enterprises and individuals providing services within the PRC are subject to VAT. The services are treated as being provided within the PRC where either the service provider or the service recipient is located in the PRC. The services subject to VAT include the provision of financial services such as the provision of loans. Circular 36 further clarifies that "loans" refer to the activity of lending capital for another's use and receiving interest income thereon. Based on the definition of "loans" under Circular 36, the issuance of the Notes is likely to be treated as a "loan" provided by the Noteholders to the Issuer or the Guarantor, which thus shall be regarded as financial services for VAT purposes. In general, the income derived from the provision of loans will not be subject to VAT in the PRC if none of the Issuer, the Guarantor or the Noteholders is within the PRC. However, it is uncertain whether a foreign incorporated company which is deemed to be a PRC resident enterprise would be regarded as being within the PRC. In the event that the Issuer or the Guarantor is deemed to be a PRC resident enterprise and is deemed to be within the PRC by the PRC tax authorities, the Noteholders may be deemed to be providing financial services to the Issuer or the Guarantor within the PRC and consequently, the amount of interest on the Notes payable by the Issuer or the Guarantor (as applicable) to any non-resident Noteholders may be subject to withholding VAT at the rate of 6 per cent. on the interests they receive plus related surcharges.

Where a holder of the Notes who is an entity or individual located outside of the PRC resells the Notes to an entity or individual located outside of the PRC and derives any gain, since neither the service provider nor the service recipient is located in the PRC, theoretically Circular 36 does not apply and neither the Issuer nor the Guarantor has the obligation to withhold VAT or the local levies. However, there is uncertainty as to the applicability of VAT if either the seller or buyer of Notes is located inside the PRC. On 20 March 2019, the MOF, SAT and General Administration of Customs issued Announcement on Relevant Policies for Deepening the Value-Added added Tax Reform (關於深化增值稅改革有關政策的公告) ("**Announcement 39**") which came into force on 1 April 2019. Announcement 39 further deepened the VAT reform by way of adjusting tax rate and calculating method and so on. However, how the reforms will be implemented remains uncertain. The above statement may be subject to further change upon the issuance of further clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36 and Announcement 39.

Pursuant to the EIT Law, the PRC Individual Income Tax Law and the VAT reform detailed above, if the Issuer or the Guarantor is regarded as a PRC tax resident enterprise, it shall withhold income tax (should such tax apply) from the payments of interest in respect of the Notes for any non-resident Noteholder and the Issuer or the Guarantor shall withhold VAT (should such tax apply) from the payments of interest in respect of the Notes for any Noteholder located outside of the PRC. However, in the event that the Issuer or the Guarantor is required to make such a deduction or withholding (whether by way of income tax, VAT or otherwise), the Issuer and the Guarantor have agreed to pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, as further set out in the "*Terms and Conditions of the Notes*".

No PRC stamp duty will be imposed on non-resident Noteholders either upon issuance of the Notes or upon a subsequent transfer of Notes to the extent that the register of holders of the Notes is maintained outside the PRC and the issuance and the sale of the Notes is made outside of the PRC.

FATCA DISCLOSURE

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a **foreign financial institution** (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The issuer may be a foreign financial institution for these purposes. A number of jurisdictions have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register and Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are published generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional Notes (as described under "*Terms and Conditions of the Notes — Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

The proposed financial transactions tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional member states of the EU may decide to participate.

Prospective holders of Notes are advised to seek their own professional advice in relation to the FTT.

GENERAL INFORMATION

1. CONSENTS

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes and the Trust Deed. The Guarantor has obtained all necessary consents, approvals and authorisations in connection with the giving and performance of the Guarantee and the Trust Deed. The entering into of the Trust Deed governing the Notes and the issue of the Notes have been authorised by resolutions of the board of directors of the Issuer dated 4 June 2021, and resolutions of the board of directors of the Guarantor passed on 2 June 2021.

2. LITIGATION

There are no legal or arbitration proceedings against or affecting the Guarantor, any of its subsidiaries or any of its assets, nor is the Group aware of any pending or threatened proceedings, which are or might be material in the context of the issue of the Notes and the Guarantee.

3. AUDITOR

The Guarantor's 2019 Audited Financial Statements and 2020 Audited Financial Statements are included in this Offering Circular and has been audited by PwC, its independent auditor, as set forth in their reports contained herein. Prospective investors must exercise caution when using such data to evaluate the Guarantor's financial condition and results of operations.

4. DOCUMENTS AVAILABLE

Copies of the following documents may be inspected during normal business hours (being 9:00 a.m. to 3:00 p.m. (Hong Kong time)) upon prior written notice and with satisfactory proof of holding on any weekday (except Saturdays, Sundays and public holidays) at the specified office of the Trustee:

(i) each Pricing Supplement (save that a Pricing Supplement relating to a Note which is neither admitted to trading on a regulated market within the EEA or in the United Kingdom (the "**UK**") nor offered in the EEA or in the UK in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuer and the Issuing and Paying Agent as to its holding of the Notes and identity);

(ii) a copy of this Offering Circular together with any supplement to this Offering Circular;

(iii) the Trust Deed; and

(iv) the Agency Agreement.

So long as any of the Notes remain outstanding, the Issuer and the Guarantor have covenanted in the Trust Deed to send to the Trustee, within the time limits stipulated therein, copies of:

(i) the Guarantor's audited consolidated financial statements for each financial year of the Guarantor; and

(ii) the Guarantor's unaudited consolidated financial statements for each first semi-annual fiscal period of the Guarantor.

5. CLEARING SYSTEM AND SETTLEMENT

The Notes may be accepted for clearance through Euroclear, Clearstream or other alternative clearing system. The appropriate common code and the International Securities Identification Number in relation to the Notes of each Series will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

6. LISTING OF THE NOTES

Application has been made to the Stock Exchange for the listing of the Programme by way of debt issues to Professional Investors only during the 12 month period after the date of this Offering Circular. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the date of listing of the relevant Notes. The Stock Exchange takes no responsibility for the correctness of any statements made on opinions or reports contained in this Offering Circular. Admission of the Notes to the official list of the Stock Exchange is not to be taken as an indication of the merits of the Notes or the Group.

7. NO MATERIAL ADVERSE CHANGE

Except as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Guarantor or the Group since 31 December 2020.

INDEX TO CONSOLIDATED FINANCIAL INFORMATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GUARANTOR FOR THE YEAR ENDED 31 DECEMBER 2020 [1]

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GUARANTOR FOR THE YEAR ENDED 31 DECEMBER 2019 [1]

Note:

(1) The Guarantor's consolidated financial statements for the years ended 31 December 2018 and 2019 together with the independent auditor's reports set out herein are reproduced from the Guarantor's annual reports for the years ended 31 December 2019 and 2020, respectively. Page references referred to in the auditor's reports named above refer to pages set out in such annual reports.

Independent Auditor's Report

羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of BOCOM International Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 107 to 238, which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

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

- Valuation assessment of Level 3 financial instruments

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments)	Our audit procedures in relation to the impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) included:
Refer to Notes 3(b), 22, 26 and 39.1(b) to the consolidated financial statements. As at 31 December 2020, the margin loans to customers amounted to HK$2,799,125 thousand and financial assets at fair value through other comprehensive income (debt investments) amounted to HK$2,642,655 thousand which collectively, represented 23% of the Group's total assets. As at 31 December 2020, the impairment allowance on margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) amounted to HK$82,678 thousand and HK$269,803 thousand, respectively. The Group's impairment losses are calculated based on a "three-stage" expected credit loss ("ECL") model, which involves significant management judgements and a number of estimated inputs in the calculation. For margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) classified under Stages 1 and 2, management assessed expected credit loss allowances using the statistical modelling approach that incorporated key assumptions and parameters, for instance, probability of default, loss given default, exposure at default, and forward-looking information taking into account of possible impact of COVID-19. For credit-impaired margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) classified under Stage 3, management assessed the credit loss allowances by estimating the cash flows expected to arise from the financial assets after taking into consideration of forward-looking factors.	• We have obtained an understanding of the management's internal control and assessment process of the impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments), including the impairment model adopted and key assumptions used; and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of subjectivity; • We have tested key management controls over the recording, approval and monitoring of the impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments); • We have tested key management controls over ECL model monitoring; • With the support of our internal model specialists, we have assessed the reasonableness of ECL modelling methodologies and key assumptions applied by the management including input parameters, forward-looking information and taking into account management assessment of possible impact of COVID-19; • We have challenged the reasonableness of the significant assumptions used by management to develop ECL estimates, including determination of staging and significant increase in credit risk, and conducting sensitivity analysis on the weightings used for multiple economic scenarios;

KEY AUDIT MATTERS (continued)

Key Audit Matter

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

A variety of inputs and assumptions were considered by management, including but not limited to the Group's internal and external default data, the profile of the underlying securities, determination criteria for significant increase in credit risk, definition of default, external economic data, weightings used for economic scenarios and forward-looking information, which create uncertainties of the appropriateness and accuracy of the ECL.

The Group forecasts the credit losses that it would incur as a result of defaults under different scenarios in future periods. The amount of ECL recognised as a loss allowance depends on the extent of credit deterioration since initial recognition.

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

How our audit addressed the Key Audit Matter

- We have tested the data inputs to the ECL model on a sample basis to verify the data completeness and accuracy;
- We have assessed the existence and valuation of collaterals for margin loans held on a sample basis by examining the Group's and the clearing house's records, checking quoted market prices at year end against independent source and the liquidity of the underlying market securities with reference to the recent trading volume;
- We have assessed the appropriateness of impairment allowance made by the Group on margin loans and fair value through other comprehensive income (debt investments) classified as stage 3, on a sample basis, by evaluating and challenging the reasonableness of the key assumptions and management judgement involved in estimating the discounted future cash flows, with reference to the economic background, financial information, repayment history and repayment plan of borrowers, and availability of collaterals, if applicable.

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

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation assessment of Level 3 financial instruments Refer to Note 3(a), 22 and 39.3 to the consolidated financial statements. As at 31 December 2020, the Level 3 financial instruments mainly comprise of unlisted funds, debt investments and preference shares. The amount consisted of financial assets at fair value through profit or loss of HK$3,739,873 thousand and financial assets at fair value through other comprehensive income of HK$7,107 thousand. The valuation of the Level 3 financial instruments was based on valuation models that required a considerable number of inputs. Since many of the significant inputs were not based on observable market data, significant management judgement and estimates were made in the valuation process. As outbreak of COVID-19 has caused challenges or opportunities on different companies, sectors, nations, regions and the markets, depending on the business segments of the underlying investment companies. It has therefore increased the uncertainty in the valuation of the level 3 financial instruments. The estimation of fair value of Level 3 financial instruments is subject to high degree of estimation uncertainty. The inherent risk in relation to the valuation of Level 3 financial instruments is considered significant due to the complexity of the valuation models applied, subjectivity of significant assumptions used and significant judgements involved in selecting unobservable inputs.	Our audit procedures in relation to the valuation assessment of Level 3 financial instruments included: • We have obtained an understanding of the management's internal control and assessment process of the valuation assessment of Level 3 financial instruments and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud, and the impact of COVID-19 on the underlying investments; • We have tested the key controls over the valuation and classification of levels for Level 3 financial instruments; • We have tested the key controls over the management's monitoring on the financial and non-financial updates of the underlying investments; • We have evaluated the competency and objectivity of the external valuation experts used by the management; • With the support of our internal valuation experts, we have assessed the appropriateness of models and assumptions used for the valuation of Level 3 financial instruments, on a sample basis, with reference to market practice;

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation assessment of Level 3 financial instruments (continued)	
Due to the significant balance of Level 3 financial instruments, significant management judgement on the use of valuation models, assumptions and unobservable inputs, the valuation of Level 3 financial instruments is identified as a key audit matter.	• We have inspected and evaluated the terms and conditions of the underlying investment agreements that are relevant to valuation for selected Level 3 financial instruments, on a sample basis; • We have evaluated, on a sample basis the appropriateness and reasonableness of the key model inputs, external and internal supporting documents used in the valuation and testing the mathematical accuracy of the computation; • We have considered whether the management judgements made in selecting the valuation models and significant assumptions and data would give rise to indicators of possible management bias; • We have evaluated and compared the disposal proceeds to prior year valuation results in order to test the reasonableness of management's estimates in valuation for Level 3 financial instruments disposed of during the year. Based on the above, we considered that management's judgements and assumptions applied in the valuation assessment of Level 3 financial instruments were supportable by the evidence obtained and procedures performed.

Independent Auditor's Report (Continued)

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report (Continued)

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Poon Tak Cheong, Raymond.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2021

Consolidated Income Statement

For the year ended 31 December 2020

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
Profit for the year	**851,181**	500,639
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss		
Changes in fair value of debt investments at fair value through other comprehensive income	**97,152**	(39,249)
Amounts reclassified to profit or loss upon disposal of debt investments at fair value through other comprehensive income	**(22,473)**	43
	74,679	(39,206)
Exchange differences on translation of foreign operations	**97,901**	(8,805)
	172,580	(48,011)
Items that will not be reclassified subsequently to profit or loss		
Changes in fair value of equity investments at fair value through other comprehensive income	**41,346**	24,157
Other comprehensive income/(loss), net of tax	**213,926**	(23,854)
Total comprehensive income	**1,065,107**	476,785
Attributable to:		
Shareholders of the Company	**1,025,092**	477,077
Non-controlling interests	**40,015**	(292)
	1,065,107	476,785

Consolidated Statement of Financial Position

At 31 December 2020

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

Consolidated Statement of Financial Position (Continued)

At 31 December 2020

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

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

Meng Yu,
Chief Executive Officer &
Executive Director

Cheng Chuange,
Deputy Chief Executive Officer &
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Attributable to owners of the Company						
	Share capital HK$'000	Retained earnings HK$'000	Revaluation reserve HK$'000	Foreign currency translation reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2020	**3,942,216**	**2,778,837**	**(167,158)**	**(25,913)**	**6,527,982**	**99,828**	**6,627,810**
Profit for the year	**–**	**843,155**	**–**	**–**	**843,155**	**8,026**	**851,181**
Other comprehensive income for the year	**–**	**43,936***	**72,089**	**65,912**	**181,937**	**31,989**	**213,926**
Total comprehensive income for the year	**–**	**887,091**	**72,089**	**65,912**	**1,025,092**	**40,015**	**1,065,107**
Capital contribution by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**337,116**	**337,116**
Dividends paid to ordinary shares (Note 14)	**–**	**(246,095)**	**–**	**–**	**(246,095)**	**–**	**(246,095)**
At 31 December 2020	**3,942,216**	**3,419,833**	**(95,069)**	**39,999**	**7,306,979**	**476,959**	**7,783,938**
At 31 December 2018	3,942,216	2,520,038	(170,708)	(17,472)	6,274,074	134	6,274,208
Impact on initial application of HKFRS 16	–	(4,418)	–	–	(4,418)	–	(4,418)
Adjusted balance at 1 January 2019	3,942,216	2,515,620	(170,708)	(17,472)	6,269,656	134	6,269,790
Profit for the year	–	500,567	–	–	500,567	72	500,639
Other comprehensive (loss)/income for the year	–	(18,599)*	3,550	(8,441)	(23,490)	(364)	(23,854)
Total comprehensive income for the year	–	481,968	3,550	(8,441)	477,077	(292)	476,785
Capital contribution by non-controlling interests	–	–	–	–	–	100,119	100,119
Dividends paid to ordinary shares (Note 14)	–	(218,751)	–	–	(218,751)	–	(218,751)
Dividends paid by a subsidiary	–	–	–	–	–	(133)	(133)
At 31 December 2019	3,942,216	2,778,837	(167,158)	(25,913)	6,527,982	99,828	6,627,810

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

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

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2020

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

Notes to the Consolidated Financial Statements
For the year ended 31 December 2020

1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies and disclosures

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

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

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

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

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

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

2.2 Subsidiaries

2.2.1 Consolidation

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) *Business combinations (continued)*

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

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

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

(c) *Disposal of subsidiaries*

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

2.2.2 Separate financial statements

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Joint arrangements

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

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

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

2.5 Segment reporting

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

2.6 Revenue recognition

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Revenue recognition (continued)

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

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

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

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

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

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

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

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

2.7 Foreign currency translation

(a) *Functional and presentation currency*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(b) Transactions and balances

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

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

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

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

(c) Group companies

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(c) Group companies (continued)

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

(d) Disposal of foreign operation and partial disposal

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

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

2.8 Borrowing costs

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

2.9 Taxation

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Taxation (continued)

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Taxation (continued)

(b) Deferred income tax (continued)

Outside basis differences (continued)

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

(c) Offsetting

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

2.10 Financial instruments

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

– those to be measured at amortised cost

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.1 Classification (continued)

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

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

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

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

– the designated eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial liabilities or recognising the gains and losses on different bases;

– a group of financial liabilities is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel;

– hybrid instruments containing one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear with little or no analysis that the embedded derivative(s) would not be separately recorded;

– hybrid instruments containing embedded derivatives which need to be separated but cannot be separately measured on acquisition date or subsequent reporting date.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.2 Recognition and derecognition

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

2.10.3 Measurement

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

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

Debt instruments

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.3 Measurement (continued)

Debt instruments (continued)

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

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

Equity instruments

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.3 Measurement (continued)

Financial liabilities

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

Other financial liabilities

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

2.10.4 Impairment of financial assets

The Group assesses the expected credit losses ("ECL") associated with its financial assets on a forward-looking basis.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.4 Impairment of financial assets (continued)

Margin loans to customers

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

Accounts receivable

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

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

To measure the ECL, other receivables and amounts due from an associate, a fellow subsidiary and related parties have been grouped based on shared credit risk characteristics and the days past due.

Debt investments at FVOCI

For debt investments at FVOCI, the Group measures the loss allowance at an amount equal to the next 12 months ECL if the credit risk of debt investments at FVOCI has not increased significantly since initial recognition. In the event of a significant increase in credit risk, the Group recognises lifetime expected losses based on the significant increase in the likelihood or risk of a default occurring since initial recognition.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.4 Impairment of financial assets (continued)

Loans and advances

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

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

Receivable from reverse purchase agreements

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

Cash and bank balances and other assets

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

2.11 Offsetting financial instruments

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

2.12 Margin loans to customers

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

2.13 Cash and cash equivalents

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.14 Share capital

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

2.15 Employee benefits

The Group operates defined contribution pension plans.

(a) *Pension obligations*

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

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

(b) *Employee leave entitlements*

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

2.16 Property and equipment

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Property and equipment (continued)

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

Leasehold improvements	3–5 years
Furniture and fixtures	3–5 years
Motor vehicles	3–5 years
Office equipment	3–5 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.18).

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

2.17 Intangible assets

Trading rights

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

2.18 Impairment of non-financial assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Borrowings

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

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

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

2.20 Contingent liabilities

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

2.21 Provisions

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Receivable from reverse repurchase agreements and obligation under repurchase agreements

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

The obligation under repurchase agreements arises when the securities are sold by the Group with a concurrent agreement to repurchase at a specified later date and price. The repurchase agreements entered into by the Group are functionally equivalent to collateralised borrowing which involves pledging of corresponding debt securities with an agreement to repay the borrowed sum together with agreed upon interest at an agreed upon date. These securities are not required to be derecognised in the consolidated statement of financial position. The consideration received by the Group is recognised as "Obligation under repurchase agreements" in the consolidated statement of financial position. The Group may be required to provide additional collateral based on the fair value of the underlying assets if necessary.

2.23 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Leases (continued)

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Government grants

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Fair value of financial instruments

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

(b) Impairment allowances of financial assets

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Consolidation assessment of structured entities

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

4. SEGMENT INFORMATION (continued)

Inter-segment transactions, if any, are conducted with reference to the prices charged to external third parties. There was no change in basis during the year ended 31 December 2020.

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

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

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

4. SEGMENT INFORMATION (continued)

	Year ended 31 December 2019							
	Brokerage HK$'000	Corporate finance and underwriting HK$'000	Asset management and advisory HK$'000	Margin financing HK$'000	Investment and loans HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Total revenue								
Revenue								
Commission and fee income								
• External	118,396	120,083	125,922	–	–	–	–	364,401
• Internal	473	–	3,732	–	–	–	(4,205)	–
Interest income								
• External	–	–	–	228,648	316,504	–	–	545,152
• Internal	–	–	–	–	52,185	–	(52,185)	–
Proprietary trading income								
• External	–	–	–	–	507,454	–	–	507,454
• Internal	–	–	–	–	–	–	–	–
Other income	20,016	–	1,311	–	35,193	96,715	–	153,235
	138,885	120,083	130,965	228,648	911,336	96,715	(56,390)	1,570,242
Total expenses	(189,297)	(136,754)	(110,486)	(142,560)	(542,506)	–	56,390	(1,065,213)
Share of results of associates	–	–	–	–	26,571	–	–	26,571
Share of results of joint ventures	–	–	–	–	(91)	–	–	(91)
(Loss)/profit before taxation	(50,412)	(16,671)	20,479	86,088	395,310	96,715	–	531,509
Other disclosures								
Depreciation	(31,088)	(5,607)	(10,559)	(12,058)	(18,747)	–	–	(78,059)
Change in impairment allowance	(230)	(121)	–	(5,013)	(43,872)	–	–	(49,236)
Finance costs	(357)	(101)	(327)	(79,020)	(327,978)	–	52,185	(355,598)

The geographical information of revenue is disclosed as follows:

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

5. REVENUE AND OTHER INCOME

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

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

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

5. REVENUE AND OTHER INCOME (continued)

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

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

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

6. COMMISSION AND BROKERAGE EXPENSES

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

7. FINANCE COSTS

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

8. STAFF COSTS

	2020 HK$'000	2019 HK$'000
Salaries, bonus, staff allowances	**378,953**	351,611
Directors' fees	**1,080**	1,080
Contributions to retirement benefit scheme	**21,960**	21,687
	401,993	374,378

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

The amount of forfeited contributions utilised in the course of the year ended 31 December 2020 was HK$3,094 thousand (2019: HK$2,410 thousand).

8. STAFF COSTS (continued)

Five highest paid individuals

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

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

Number of individuals

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

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

9. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

Directors' and chief executives' emoluments

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

For the year ended 31 December 2020

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

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

Directors' and chief executives' emoluments (continued)

For the year ended 31 December 2019

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

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

No directors and chief executives waived or agreed to waive any emoluments during the years ended 31 December 2020 and 2019. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors and chief executives during the years ended 31 December 2020 and 2019.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

10. OTHER OPERATING EXPENSES

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

11. CHANGE IN IMPAIRMENT ALLOWANCE

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

12. INCOME TAX EXPENSE

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

13. EARNINGS PER SHARE

(a) Basic

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

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

(b) Diluted

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

14. DIVIDENDS

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

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

15. PROPERTY AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
Cost					
At 1 January 2019	38,190	4,351	9,605	86,580	138,726
Additions	195	520	423	12,526	13,664
Disposals	–	(540)	(430)	(10,120)	(11,090)
Exchange adjustments	(215)	(7)	(6)	(30)	(258)
At 31 December 2019 and 1 January 2020	38,170	4,324	9,592	88,956	141,042
Additions	1,621	597	–	13,195	15,413
Disposals	(51)	(175)	–	(2,483)	(2,709)
Exchange adjustments	833	52	22	155	1,062
At 31 December 2020	40,573	4,798	9,614	99,823	154,808
Accumulated depreciation					
At 1 January 2019	31,294	3,698	6,933	64,672	106,597
Charge for the year	2,154	304	664	8,580	11,702
Disposals	–	(537)	(430)	(10,120)	(11,087)
Exchange adjustments	(186)	(6)	(6)	(26)	(224)
At 31 December 2019 and 1 January 2020	33,262	3,459	7,161	63,106	106,988
Charge for the year	2,232	329	712	9,008	12,281
Disposals	(51)	(139)	–	(2,483)	(2,673)
Exchange adjustments	738	22	22	92	874
At 31 December 2020	36,181	3,671	7,895	69,723	117,470
Carrying values					
At 31 December 2019	4,908	865	2,431	25,850	34,054
At 31 December 2020	4,392	1,127	1,719	30,100	37,338

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

16. LEASES

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

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

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

(b) Amounts recognised in the consolidated income statement:

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

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

16. LEASES (continued)

(c) The Group leases various offices, staff quarters and car parks. Rental contracts are typically made for fixed periods of 1 year to 5 years, but may have extension and termination options. These options are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

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

17. INTANGIBLE ASSETS

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

	2020 HK$'000	2019 HK$'000
Trading rights of the SEHK	**3,196**	3,196

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

For the purpose of impairment testing on the intangible assets held by the Group, the recoverable amounts have been determined based on fair values less costs of disposal. For the years ended 31 December 2020 and 2019, no impairment loss for intangible assets was recognised, and there were no additions or disposals of intangible assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

18. INVESTMENT IN SUBSIDIARIES

As at 31 December 2020, the Company had direct or indirect interests in the following principal subsidiaries, which in the opinion of the directors, is material to the Group.

Name of subsidiaries	Place of incorporation, operation and kind of legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the Group 2020	2019	Directly held/ indirectly held
BOCOM International Securities Ltd.	Hong Kong, Limited Liability Company	Dealing in securities and futures	HKD1,100,000,000	**100%**	100%	Directly
BOCOM International (Asia) Ltd.	Hong Kong, Limited Liability Company	Corporate finance	HKD10,000,000	**100%**	100%	Directly
BOCOM International Asset Management Ltd.	Hong Kong, Limited Liability Company	Asset management	2020: HKD150,000,000 2019: HKD100,000,000	**100%**	100%	Directly
BOCOM International (Shanghai) Equity Investment Management Co., Ltd.* 交銀國際（上海）股權投資管理有限公司	Shanghai, Limited Liability Company	Investment management and advisory service	2020: USD57,000,000 2019: USD43,000,000	**100%**	100%	Directly
Preferred Investment Management Limited	British Virgin Islands, Limited Liability Company	Investment management	USD100	**100%**	100%	Directly
BIAM Leveraged Credit Fund SP[1]	Cayman Islands, Investment fund	Investment trading	USD45,140,522	**55.57%**	–	Directly
BOCOM International China Dynamic Fund	Hong Kong, Investment fund of unit trust	Investment trading	2020: RMB50,680,224 2019: RMB36,238,693	**78.27%**	70.73%	Directly
Qingdao BOCOM Haikong Science and Technology Innovation Equity Investment Partnership Enterprise L.P.* 青島交銀海控科創股權投資合夥企業（有限合夥）	Qingdao, Limited Partnership	Investment trading	RMB182,000,000	**50%**	–	Directly and indirectly
BOCOM International Nova Limited	Hong Kong, Limited Liability Company	Investment management	HKD1	**100%**	–	Directly

18. INVESTMENT IN SUBSIDIARIES (continued)

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

Notes to the Consolidated Financial Statements (Continued)
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18. INVESTMENT IN SUBSIDIARIES (continued)

Name of subsidiaries	Place of incorporation, operation and kind of legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the Group 2020	Equity interest held by the Group 2019	Directly held/ indirectly held
Shanghai Boli Investment Company Limited* 上海博禮投資有限公司	Shanghai, Limited Liability Company	Investment trading	RMB105,000,000	**100%**	100%	Indirectly
Qiniu BOCOM International No. 1 Equity Fund* 七牛-交銀國際一號私募股權投資基金	Shenzhen, Contractual Fund	Investment trading	RMB31,093,280	**38.71%**	38.71%	Indirectly
Jiaxing Hengsheng Equity Investment Fund Partnership Enterprise L.P.*[3] 嘉興恒昇股權投資基金合夥企業（有限合夥）	Jiaxing, Limited Partnership	Private equity investment	RMB20,150,000	**23.25%**	100%	Indirectly
Shenzhen Boqiang Investment Consulting Co., Ltd.* 深圳博強投資諮詢有限公司	Shenzhen, Limited Liability Company	Investment trading and advisory service	–[4]	**100%**	100%	Indirectly
Nanjing Boyuan Equity Investment Co., Ltd.* 南京博遠股權投資有限公司	Nanjing, Limited Liability Company	Investment trading	RMB10,010,000	**100%**	100%	Indirectly
BiMatrix Capital Limited	Hong Kong, Limited Liability Company	Investment management	USD1	**100%**	100%	Indirectly
BOCOM Science and Technology Innovation Equity Investment Fund (Shanghai) Partnership Enterprise L.P.* 交銀科創股權投資基金（上海）合夥企業（有限合夥）	Shanghai, Partnership	Investment trading	2020: RMB380,000,000 2019: RMB141,000,000	**26.32%**	30.77%	Indirectly

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

Notes:

1 On 1 October 2020, BIAM Leveraged Credit Fund SP was reclassified from an associate to a subsidiary of the Group due to change of its effective interest, resulting a control over the fund. As at step acquisition date, no gain or loss was recognised as a result of remeasuring the equity interest to fair value.

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

3 On 1 January 2020, Jiaxing Hengsheng Equity Investment Fund Partnership Enterprise L.P. was reclassified to a subsidiary by management with consideration of its shareholding structure.

4 Shenzhen Boqiang Investment Consulting Co., Ltd. had an issued capital of RMB20,000,000 without fully paid-up as at 31 December 2020.

18. INVESTMENT IN SUBSIDIARIES (continued)

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

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

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

Qiniu BOCOM International No. 1 Equity Fund

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

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18. INVESTMENT IN SUBSIDIARIES (continued)

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

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

18. INVESTMENT IN SUBSIDIARIES (continued)

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

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19. INTEREST IN ASSOCIATES

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

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

Set out below is the associates of the Group as at 31 December 2020 which, in the opinion of the directors, are material to the Group. The associates as listed below have share capital consisting solely of ordinary shares; the country of incorporation or registration are also its principal place of business.

Name of entity	Place of incorporation, operation and kind of legal entity	Principal activities	Measurement method	Issued and fully paid-up capital	2020	2019	Directly held/ Indirectly held
BIAM Leveraged Credit Fund SP	Cayman Islands, Investment fund	Investment trading	Equity	USD78,278,459	**–**	33.12%	Directly
Cross-border Interbank Payment System Co., Ltd.* 跨境銀行間支付清算有限責任公司	Shanghai, Limited Liability Company	Clearing	Equity	RMB2,380,000,000	**3.14%**	3.14%	Indirectly
Jiaxing Henghao Equity Investment L.P.* 嘉興恒昊股權投資基金合夥企業（有限合夥）	Jiaxing, Limited Partnership	Private equity investment	Equity	RMB153,069,000	**9.79%**	9.79%	Indirectly
State Grid Yingda Industry Investment Funds Management Co., Ltd.* 國網英大產業投資基金管理有限公司	Beijing, Limited Liability Company	Investment management	Equity	RMB600,000,000	**10%**	10%	Indirectly

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

19. INTEREST IN ASSOCIATES (continued)

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

Cross-border Interbank Payment System Co., Ltd.

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

Notes to the Consolidated Financial Statements (Continued)

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19. INTEREST IN ASSOCIATES (continued)

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

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

19. INTEREST IN ASSOCIATES (continued)

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

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

20. INTEREST IN JOINT VENTURES

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

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

Notes to the Consolidated Financial Statements (Continued)
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20. INTEREST IN JOINT VENTURES (continued)

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

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

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

20. INTEREST IN JOINT VENTURES (continued)

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

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

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

Notes to the Consolidated Financial Statements (Continued)

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20. INTEREST IN JOINT VENTURES (continued)

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

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

21. OTHER ASSETS

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

22. FINANCIAL ASSETS AND LIABILITIES

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

Financial assets at fair value through other comprehensive income

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

22. FINANCIAL ASSETS AND LIABILITIES (continued)

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

	At 31 December 2019			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
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
	755,413	–	84,549	839,962
Mandatorily measured at fair value through other comprehensive income				
Debt investments	3,635,117	–	155,460	3,790,577
	4,390,530	–	240,009	4,630,539
Analysed for reporting purposes:				
Non-current				3,172,930
Current				1,457,609
				4,630,539

22. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets at fair value through profit or loss

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

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

	At 31 December 2019			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Equity securities	214,459	–	–	214,459
Debt investments	2,754,622	–	–	2,754,622
Preference shares	–	–	1,238,733	1,238,733
Club debenture	–	–	1,952	1,952
Funds	34,172	–	–	34,172
Unlisted funds	–	–	1,616,259	1,616,259
Equity-linked loan	–	–	443,061	443,061
Structured financial products	–	–	106,879	106,879
Unlisted equities	–	–	97,416	97,416
	3,003,253	–	3,504,300	6,507,553

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22. FINANCIAL ASSETS AND LIABILITIES (continued)

Derivative financial assets

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

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

* Futures contracts represented derivative transactions in respect of commodities.

Financial liabilities at fair value through profit or loss

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

22. FINANCIAL ASSETS AND LIABILITIES (continued)

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

	At 31 December 2019			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial liabilities to the investors of the funds consolidated	(11,765)	–	–	(11,765)
Notes payable	–	(692,674)	–	(692,674)
Structured note payable	–	–	(19,432)	(19,432)
	(11,765)	(692,674)	(19,432)	(723,871)

Derivative financial liabilities

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

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

* Futures contracts represented derivative transactions in respect of commodities.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

23. LOANS AND ADVANCES

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

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

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

24. ACCOUNTS RECEIVABLE

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

24. ACCOUNTS RECEIVABLE (continued)

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

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

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

	2020 HK$'000	2019 HK$'000
Total market value of securities pledged as collateral in respect of the overdue accounts receivable – clients	**679,514**	268,878

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

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

25. OTHER RECEIVABLES AND PREPAYMENTS

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

26. MARGIN LOANS TO CUSTOMERS

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

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

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

26. MARGIN LOANS TO CUSTOMERS (continued)

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

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

27. RECEIVABLE FROM REVERSE REPURCHASE AGREEMENTS

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

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

Notes to the Consolidated Financial Statements (Continued)

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

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

29. CASH AND BANK BALANCES

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

Bank balances carry interest at market rates

	2020	2019
Interest rates range	**0.01%–2.0%**	0.01%–1.9%

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

30. OTHER PAYABLES AND ACCRUED EXPENSES

	2020 HK$'000	2019 HK$'000
Other payables	**100,898**	29,195
Accrued expenses	**27,723**	38,018
	128,621	67,213

31. ACCOUNTS PAYABLE

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

	2020 HK$'000	2019 HK$'000
Clients – trade settlement	**512,487**	367,768
Clearing house	**100,158**	36,679
Brokers	**–**	996
	612,645	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 businesses.

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

32. CONTRACT LIABILITIES

	2020 HK$'000	2019 HK$'000
Contract liabilities	**51,431**	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 Consolidated Financial Statements (Continued)
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33. DEFERRED TAXATION

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

	2020 HK$'000	2019 HK$'000
Deferred tax assets	**10,876**	10,758
Deferred tax liabilities	**(45,789)**	–
	(34,913)	10,758

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

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

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

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

34. SHARE CAPITAL

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

35. BORROWINGS

(a) Outstanding borrowings

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

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

Notes to the Consolidated Financial Statements (Continued)

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35. BORROWINGS (continued)

(b) Borrowings repayable

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

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

36. RELATED PARTY TRANSACTIONS

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

(a) Ultimate holding company

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

36. RELATED PARTY TRANSACTIONS (continued)

(a) Ultimate holding company (continued)

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

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

(b) Fellow subsidiaries, associates and joint ventures

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

36. RELATED PARTY TRANSACTIONS (continued)

(c) Related parties

	2020 HK$'000	2019 HK$'000
Transaction		
Interest income from debt investment	**–**	2,631
Fund management fee income	**14,174**	16,351

	2020 HK$'000	2019 HK$'000
Balance of transaction		
Gross amounts due from related parties	**1,270**	1,941
Less: impairment allowance	**(1)**	(4)
	1,269	1,937

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

Notes

(i) Interest income from deposits

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

(ii) Finance costs

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

(iii) Commission income

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

(iv) Commission expenses

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

36. RELATED PARTY TRANSACTIONS (continued)

Notes (continued)

(v) Asset management and advisory income

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

(vi) Fund management fee income

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

(vii) Underwriting fee income

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

(viii) Interest income from debt investment

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

(ix) Borrowings

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

(x) Subordinated loans

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

(xi) Rental expenses

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

(xii) Other operating expenses

The other operating expenses paid to the ultimate holding company and fellow subsidiaries mainly included system usage fee, bank charges, custody fee, professional fee, printing and stationery, insurance and management fee expense.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

36. RELATED PARTY TRANSACTIONS (continued)

Notes (continued)

(xiii) Other income

Other income represented insurance claim from a fellow subsidiary.

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

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

(xv) Accounts receivable and accounts payable

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

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

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

(d) Key management personnel

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

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

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

For details of the key management personnel of the Group in 2020, please refer to the section headed "Biographies of Directors and Senior Management" of this annual report.

37. STRUCTURED ENTITIES

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

(a) Unconsolidated structured entities

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

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

As at 31 December 2020 and 2019, the Group's total interests in unconsolidated structured entities on the consolidated statements of financial position and maximum exposure to loss from its interests in unconsolidated structured entities are summarised in the table below:

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

37. STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

Size of unconsolidated structured entities

The size of structured entities is measured by the fair value of investments managed by the unconsolidated structured entities. As at 31 December 2020 and 2019, the fair value of investments managed by the unconsolidated structured entities is summarised in the table below:

	2020 HK$'000	2019 HK$'000
Fair value of investments managed by the unconsolidated structure entities	**17,699,160**	17,646,700

Transactions with unconsolidated structured entities

For the years ended 31 December 2020 and 2019, the Group earned management fee for its investment management service in relation to fund. Interest income is recognised on the loans provided to structured entities and interest earned on holding the senior notes issued by structured entities. The total income derived from involvement with unconsolidated structured entities is summarised in the table below:

	2020 HK$'000	2019 HK$'000
Management fee income	**39,424**	42,648
Interest income	**7,077**	2,631
	46,501	45,279

37. STRUCTURED ENTITIES (continued)

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

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

The size of consolidated structured entities is measured by the fair value of investments of consolidated structured entities. As at 31 December 2020 and 2019, the fair value of investments of consolidated structured entities is summarised in the table below:

	2020 HK$'000	2019 HK$'000
Fair value of investments of the consolidated structured entities	**918,279**	759,532

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

During the years ended 31 December 2020 and 2019, the Group did not provide financial support for any of the consolidated structured entities.

There were no contractual liquidity arrangements or other commitments between the Group, structured entities or any third parties that could increase the level of the Group's risk from or reduce its interest in structured entities during the years ended 31 December 2020 and 2019. No loss was incurred by the structured entities relating to the Group's interests in the structured entities, and the structured entities did not experience difficulty in financing their activities.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

38. COMMITMENTS

Operating leases commitments

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

	2020 HK$'000	2019 HK$'000
No later than 1 year	–	13
Later than 1 year and no later than 5 years	–	–
	–	13

Investment commitments

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

	2020 HK$'000	2019 HK$'000
Unfunded commitments	**84,816**	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:

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

39. FINANCIAL RISK MANAGEMENT

39.1 Financial risk factors

The Group's major financial instruments include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, other assets, accounts and other receivables, loans and advances, margin loans to customers, receivable from reverse repurchase agreements, amounts due from an associate, a fellow subsidiary and related parties, cash and bank balances, accounts payable, borrowings, obligation under repurchase agreements, lease liabilities, subordinated loans from the ultimate holding company and amounts due to the ultimate holding company and a fellow subsidiary. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

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

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

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

(a) *Market risk*

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Summary of financial assets and liabilities

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Currency risk

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

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

	As at 31 December 2020				
	HKD HK$'000	USD (in HKD equivalent) HK$'000	RMB (in HKD equivalent) HK$'000	Other foreign currencies (in HKD equivalent) HK$'000	Total HK$'000
Financial assets					
Other assets	39,414	–	1,758	–	41,172
Loans and advances	130,170	2,673,593	–	–	2,803,763
Accounts receivable	601,633	480,389	22,701	3,360	1,108,083
Other receivables	87,288	316,936	14,572	–	418,796
Margin loans to customers	2,665,712	133,381	–	32	2,799,125
Receivable from reverse repurchase agreements	–	237,350	–	–	237,350
Amount due from a fellow subsidiary	5,857	–	–	–	5,857
Amounts due from related parties	662	548	59	–	1,269
Financial assets at fair value through other comprehensive income	856	2,973,294	7,107	–	2,981,257
Financial assets at fair value through profit or loss	359,342	9,270,138	776,068	–	10,405,548
Derivative financial assets	–	24,367	–	–	24,367
Cash and bank balances	129,085	276,071	1,584,915	14,844	2,004,915
Total financial assets	4,020,019	16,386,067	2,407,180	18,236	22,831,502
Financial liabilities					
Borrowings	1,000,000	7,633,885	–	–	8,633,885
Subordinated loans from the ultimate holding company	1,000,000	–	–	–	1,000,000
Obligation under repurchase agreements	–	4,069,607	–	–	4,069,607
Other payables	18,829	79,055	3,014	–	100,898
Accounts payable	357,659	248,144	5,896	946	612,645
Lease liabilities	56,877	–	55,730	–	112,607
Amount due to the ultimate holding company	4,685	29,074	–	–	33,759
Financial liabilities at fair value through profit or loss	–	650,183	13,072	–	663,255
Derivative financial liabilities	–	34,135	–	–	34,135
Total financial liabilities	2,438,050	12,744,083	77,712	946	15,260,791
Net on-balance sheet position	1,581,969	3,641,984	2,329,468	17,290	7,570,711

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

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

Sensitivity analysis

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

Impact on profit after taxation

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk

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

As at 31 December 2020	Overdue HK$'000	Within 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial assets								
Other assets	–	–	–	–	–	–	41,172	41,172
Loans and advances	–	–	309,243	1,399,422	1,095,098	–	–	2,803,763
Accounts receivable	–	1,082,776	–	–	–	–	25,307	1,108,083
Other receivables	–	–	–	–	–	–	418,796	418,796
Margin loans to customers	–	2,799,125	–	–	–	–	–	2,799,125
Receivable from reverse repurchase agreements	–	237,350	–	–	–	–	–	237,350
Amount due from a fellow subsidiary	–	–	–	–	–	–	5,857	5,857
Amounts due from related parties	–	–	–	–	–	–	1,269	1,269
Financial assets at fair value through other comprehensive income	41,771	16,794	267,540	166,536	1,968,794	188,465	331,357	2,981,257
Financial assets at fair value through profit or loss	–	–	178,065	609,871	3,108,831	505,990	6,002,791	10,405,548
Derivative financial assets	–	–	–	–	–	–	24,367	24,367
Cash and bank balances	–	2,003,281	–	1,634	–	–	–	2,004,915
	41,771	6,139,326	754,848	2,177,463	6,172,723	694,455	6,850,916	22,831,502

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

As at 31 December 2019	Overdue HK$'000	Within 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial assets								
Other assets	–	–	–	–	–	–	24,710	24,710
Loans and advances	–	–	–	817,323	1,509,172	–	–	2,326,495
Accounts receivable	–	511,929	–	–	–	–	–	511,929
Other receivables	–	–	–	–	–	–	295,099	295,099
Margin loans to customers	–	2,679,240	–	–	–	–	–	2,679,240
Receivable from reverse repurchase agreements	–	604,583	–	–	–	–	–	604,583
Amount due from an associate	–	–	–	–	–	–	547	547
Amounts due from related parties	–	–	–	–	–	–	1,937	1,937
Financial assets at fair value through other comprehensive income	–	108,800	135,549	1,213,260	2,009,262	323,705	839,963	4,630,539
Financial assets at fair value through profit or loss	–	–	–	861,120	2,109,281	227,281	3,309,871	6,507,553
Derivative financial assets	–	–	–	–	–	–	2,224	2,224
Cash and bank balances	–	543,445	–	1,696	–	–	–	545,141
	–	4,447,997	135,549	2,893,399	5,627,715	550,986	4,474,351	18,129,997

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

As at 31 December 2019	Overdue HK$'000	Within 1 month HK$'000	1–3 months HK$'000	3 months to 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial liabilities								
Borrowings	–	8,180,697	–	–	–	–	–	8,180,697
Subordinated loans from the ultimate holding company	–	1,000,000	–	–	–	–	–	1,000,000
Obligation under repurchase agreements	–	1,471,629	–	–	–	–	–	1,471,629
Other payables	–	–	–	–	–	–	29,195	29,195
Accounts payable	–	–	–	–	–	–	405,443	405,443
Lease liabilities	–	5,046	10,040	36,614	25,019	–	–	76,719
Amount due to the ultimate holding company	–	–	–	–	–	–	5,459	5,459
Amount due to a fellow subsidiary	–	–	–	–	–	–	55	55
Financial liabilities at fair value through profit or loss	–	–	45,865	524,648	112,833	–	40,525	723,871
Derivative financial liabilities	–	–	–	–	–	–	2,942	2,942
	–	10,657,372	55,905	561,262	137,852	–	483,619	11,896,010
Interest rate sensitivity gap	–	(6,209,375)	79,644	2,332,137	5,489,863	550,986	3,990,732	6,233,987

Cash flow interest rate risk

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Cash flow interest rate risk (continued)

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

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

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

Change in basis points

	31 December			
	2020		2019	
	+25	–25	+25	–25
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation	**(9,969)**	**9,969**	(8,345)	8,345

Fair value interest rate risk

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) *Market risk (continued)*

(iii) Interest rate risk (continued)

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

Change in basis points

	31 December			
	2020		2019	
	+25	−25	+25	−25
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation	**(25,789)**	**25,934**	(4,507)	4,535
Impact on equity	**(11,589)**	**11,643**	(16,571)	16,716

(iv) Other price risk

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

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

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(iv) Other price risk (continued)

Financial assets at fair value through other comprehensive income

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

Financial assets at fair value through profit or loss

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) Market risk (continued)

(iv) Other price risk (continued)

Derivative financial assets

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

Financial liabilities at fair value through profit or loss

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(a) *Market risk (continued)*

(iv) Other price risk (continued)

Derivative financial liabilities

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

(b) *Credit risk*

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

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

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

Other assets

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

Loans and advances and loan commitments

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

Loans and advances and loan commitments (continued)

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

Receivable from reverse repurchase agreements

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

Accounts receivable

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

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

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

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

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

Other receivables

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

Margin loans to customers

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

Debt securities

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

Derivative financial assets

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

Cash and bank balances

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit quality – debt securities and derivative financial instruments

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

Financial assets at fair value through other comprehensive income – debt

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

Financial assets at fair value through profit or loss – debt

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

(1) Financial assets with no rating represent listed and unlisted corporate debts.

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

Derivative financial assets

	2020 HK$'000	2019 HK$'000
No rating	**24,367**	2,224

Derivative financial liabilities

	2020 HK$'000	2019 HK$'000
Standard & Poor's rating:		
A–	**26,345**	690
No rating	**7,790**	2,252
	34,135	2,942

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

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

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

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

The default definition applied by the Group is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and qualitative indicators have been considered when appropriate.

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

Stage 2: A loss allowance for a financial instrument should be measured at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, but it is not yet credit-impaired.

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

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

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

Ageing analysis of past due accounts receivable

Accounts receivable

	Less than 30 days HK'000	31 to 60 days HK'000	61 to 90 days HK'000	More than 90 days HK'000	Total HK'000
At 31 December 2020					
Clients	**245**	**–**	**–**	**53**	**298**
Corporate finance services	**2,025**	**–**	**–**	**4,410**	**6,435**
Underwriting business	**–**	**–**	**–**	**7,077**	**7,077**
	2,270	**–**	**–**	**11,540**	**13,810**
At 31 December 2019					
Clients	22	2	–	52	76
Corporate finance services	–	–	–	1,486	1,486
Underwriting business	–	–	–	1,949	1,949
	22	2	–	3,487	3,511

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

Gross loans and advances – grading

	2020 HK$'000	2019 HK$'000
Pass	**2,673,593**	2,334,252
Special Mention	**131,352**	–
Substandard	**–**	–
Doubtful	**–**	–
Loss	**–**	–
	2,804,945	2,334,252

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

	2020 HK$'000	2019 HK$'000
Total market value of collateral in respect of loans and advances	**7,548,549**	5,563,000

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

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(b) Credit risk (continued)

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

Sensitivity analysis

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

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

(c) Liquidity risk

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

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

(i) Non derivatives

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

(i) Non derivatives (continued)

	On demand or less than 1 month HK$'000	1–3 months HK$'000	3 months– 1 year HK$'000	1–5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2019						
Borrowings	3,231,118	26,889	122,032	5,033,430	–	8,413,469
Subordinated loans from the ultimate holding company	2,894	5,508	25,673	136,300	1,000,000	1,170,375
Obligation under repurchase agreements	–	487,734	277,068	727,614	–	1,492,416
Other payables	29,195	–	–	–	–	29,195
Accounts payable	405,443	–	–	–	–	405,443
Amount due to the ultimate holding company	5,459	–	–	–	–	5,459
Amount due to a fellow subsidiary	55	–	–	–	–	55
Financial liabilities at fair value through profit or loss	723,871	–	–	–	–	723,871
Lease liabilities	5,046	10,040	36,614	25,019	–	76,719
	4,403,081	530,171	461,387	5,922,363	1,000,000	12,317,002

(ii) Derivatives settled on a gross basis

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.2 Capital risk management

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated statement of financial position, are:

(i) to comply with the requirements of the Hong Kong Securities and Futures Ordinance ("HKSFO") for the Company's licensed subsidiaries in carrying various types of regulated activities;

(ii) to support the Group's stability and growth;

(iii) to optimise risk adjusted return to the shareholders; and

(iv) to maintain a strong capital base to support the development of its business.

The subsidiaries of the Company licensed under the HKSFO are also required to maintain adequate financial resources to support their businesses. The Securities and Futures (Financial Resources) Rules require a licensed corporation to maintain liquid capital which is not less than its required liquid capital. During the years, the Company's licensed subsidiaries have maintained adequate liquid capital to meet the requirement. During the years ended 31 December 2020 and 2019, the Company's licensed subsidiaries were regulated by the Hong Kong Securities and Futures Commission ("SFC") and complied with the statutory capital requirement.

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of share capital and reserves. The Group's overall strategy has remained unchanged throughout the years.

The Group has Capital Allocation policies. Directors, Finance and Accounting Department and Risk Management Department would discuss at the beginning of each year to set absolute and relative exposure limits of the capital to different classes of assets, after analysing the capital needs, potential returns and business risks of different segments of business. Throughout the year, the usage and allocation of capital would be closely scrutinised to make sure it would not be deviated from its plan. The purpose of these policies is to maximise the shareholders' return within a controllable risk level.

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Fair value estimation

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

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

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

– Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

– Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

– Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as Level 1. The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable. If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as Level 2. The second hierarchy of financial instruments held by the Group includes equity securities, and its fair value is estimated by adopting option pricing methodologies. The main parameters used include the relevant yield curve, exchange rate and level of volatilities etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Fair value estimation (continued)

As at 31 December 2020	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income				
Unlisted equity	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)
	Equity allocation method	Volatility	41.7%–46.8%	(vii)
Unlisted funds	Market comparable approach	Sales multiples	0.5x–28.1x	(iii)
		Discount rate for lack of marketability	14.7%–24.5%	
	Allocated net asset value	Net asset value	N/A	(iv)
Preference shares	Recent transaction price	(i)	N/A	N/A
	Equity allocation method	Volatility	41.8%–80.5%	(vii)
	Market comparable approach	Sales multiples	9.0x–28.1x	(iii)
		Discount rate for lack of marketability	24.5%	
Structured financial products	Guaranteed principal plus expected return	Expected return rate	N/A	(v)
Financial liabilities at fair value through profit or loss				
Structured note payable	Recent transaction price	(i)	N/A	(v)

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Fair value estimation (continued)

As at 31 December 2019	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
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)
	Recent transaction price	(i)	N/A	N/A
Debt investment	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)
	Recent transaction price	(i)	N/A	N/A
Preference shares	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 return 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 Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Fair value estimation (continued)

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

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

(v) The higher the expected return rate, the higher the fair value.

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

(vii) The higher the volatility, the lower the fair value.

Change in valuation technique

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

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

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

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Fair value estimation (continued)

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

	2020 HK$'000	2019 HK$'000
Derivative financial liabilities		
Beginning of the year	**–**	–
Addition during the year	**7,790**	–
End of the year (Note 22)	**7,790**	–

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

Sensitivity analysis

The following table details the Group's sensitivity to changes of unobservable inputs. The changes on one or more of the unobservable inputs would materially change the fair value of financial instruments in Level 3. The number shown below indicates an increase in profit after taxation/total assets and other comprehensive income/equity where unobservable inputs have a reasonably possible shift as shown.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Fair value estimation (continued)

Sensitivity analysis (continued)

Change in net asset value

	2020		2019	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/ total assets	**105,514**	**(105,514)**	73,823	(73,823)
Impact on other comprehensive income/equity	**–**	**–**	5,336	(5,336)

Change in adjustment to the recent transaction price/exit price

	2020		2019	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/ total assets	**73,327**	**(73,327)**	133,878	(133,878)
Impact on other comprehensive income/equity	**593**	**(593)**	14,833	14,833

Change in expected return rate

	2020		2019	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/ total assets	**1,741**	**(1,741)**	10,688	(10,688)

Change in volatility

	2020		2019	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/ total assets	**(7,409)**	**7,123**	–	–

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Fair value estimation (continued)

Sensitivity analysis (continued)

Change in multiples

	2020		2019	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/ total assets	**48,748**	**(48,748)**	38,826	(38,826)
Impact on other comprehensive income/equity	**–**	**–**	900	(900)

39.4 Offsetting financial assets and financial liabilities

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

(a) Financial assets

As at 31 December 2020	Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000
Accounts receivable from			
– Clients	**1,188,629**	**(800,601)**	**388,028**
– Brokers	**601,680**	**(103,118)**	**498,562**
– Clearing house	**1,539,429**	**(1,343,243)**	**196,186**
– Corporate finance services	**5,648**	**–**	**5,648**
– Underwriting business	**19,659**	**–**	**19,659**
Margin loans to customers	**3,388,413**	**(589,288)**	**2,799,125**
Total	**6,743,458**	**(2,836,250)**	**3,907,208**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Offsetting financial assets and financial liabilities (continued)

(a) Financial assets (continued)

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

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Offsetting financial assets and financial liabilities (continued)

(b) *Financial liabilities*

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31/12/2020 HK$'000	31/12/2019 HK$'000
Non-current Assets		
Property and equipment	**32,484**	32,083
Right-of-use assets	**62,478**	48,424
Interest in subsidiaries	**2,796,207**	1,569,936
Interest in associates	**–**	195,375
Interest in joint ventures	**70,856**	–
Subordinated loans to subsidiaries	**1,496,240**	1,000,000
Financial assets at fair value through other comprehensive income	**1,930,298**	2,173,874
Loans and advances	**1,095,098**	1,509,172
Total non-current assets	**7,483,661**	6,528,864
Current Assets		
Subordinated loans to subsidiaries	**629,348**	431,402
Loans and advances	**1,708,665**	817,323
Other receivables and prepayments	**154,741**	209,485
Receivable from reverse repurchase agreements	**102,115**	110,377
Amount due from the ultimate holding company	**–**	1,804
Amounts due from subsidiaries	**1,714,689**	2,198,875
Financial assets at fair value through other comprehensive income	**338,004**	942,618
Financial assets at fair value through profit or loss	**3,829,255**	3,680,754
Derivative financial assets	**24,199**	2,195
Cash and bank balances	**26,326**	116,306
Total current assets	**8,527,342**	8,511,139
Total assets	**16,011,003**	15,040,003
Equity and liabilities		
Equity attributable to shareholders of the Company		
Share capital	**3,909,555**	3,909,555
Retained earnings	**1,188,069**	627,443
Revaluation reserve	**316**	(91,365)
Total equity	**5,097,940**	4,445,633

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

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

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

Meng Yu,
Chief Executive Officer &
Executive Director

Cheng Chuange,
Deputy Chief Executive Officer &
Executive Director

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

41. RESERVES OF THE COMPANY

	Retained earnings HK$'000	Revaluation reserve HK$'000
At 1 January 2019	588,901	(165,720)
Impact on initial application of HKFRS 16	(2,551)	–
Adjusted balance at 1 January 2019	586,350	(165,720)
Profit for the year	278,443	–
Other comprehensive (loss)/income for the year	(18,599)	74,355
Total comprehensive income for the year	259,844	74,355
Final dividend for 2018	(218,751)	–
At 31 December 2019	627,443	(91,365)
At 1 January 2020	**627,443**	**(91,365)**
Profit for the year	**806,721**	**–**
Other comprehensive income for the year	**–**	**91,681**
Total comprehensive income for the year	**806,721**	**91,681**
Final dividend for 2019	**(246,095)**	**–**
At 31 December 2020	**1,188,069**	**316**

42. CASH HELD ON BEHALF OF BROKERAGE CLIENTS AND ASSET MANAGEMENT CLIENTS

The Group maintains segregated client accounts with licensed banks to hold client monies arising from normal business transactions in connection with the Group's brokerage and asset management business.

The Group

(a) Segregated client accounts with HKFE Clearing Corporation Limited ("HKCC")

	2020 HK$'000	2019 HK$'000
Segregated client accounts with HKCC	**27,851**	57,471

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

	2020 HK$'000	2019 HK$'000
Segregated client accounts with SEOCH	**82,638**	63,886

(c) Segregated client accounts with authorised institutions ("AIs") as a result of its normal business transactions, which are not otherwise dealt within the financial information

	2020 HK$'000	2019 HK$'000
Segregated client accounts with AIs	**4,609,728**	3,862,662

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2020

43. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities

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

44. SUBSEQUENT EVENT

Profit distribution for 2020

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

pwc 羅兵咸永道

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

OPINION

What we have audited

The consolidated financial statements of BOCOM International Holdings Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 94 to 223, which comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Independent Auditor's Report (Continued)

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

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

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

- Valuation assessment of Level 3 financial instruments

KEY AUDIT MATTERS (continued)

Key Audit Matter

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

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

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

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

A variety of inputs and assumptions were considered by management, including but not limited to the Group's internal default data, the profile of the underlying securities, determination criteria for significant increase in credit risks, external economic data, weightings used for economic scenarios and forward-looking information, which create uncertainties of the appropriateness and accuracy of the ECL.

The Group forecasts the credit losses that it would incur as a result of defaults under different scenarios during future periods. The amount of ECL recognised as a loss allowance depends on the extent of credit deterioration since initial recognition.

How our audit addressed the Key Audit Matter

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

- Understanding and testing the key management controls over the approval, recording and monitoring of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments);
- Understanding and testing the controls over ECL model updates and back-testing, including review and approval of ECL calculation;
- Evaluating and assessing the appropriateness of the ECL methodology applied by the management, including input parameters, forward-looking information and staging determination;
- Understanding and evaluating the reasonableness of the significant assumptions used by the management to develop ECL estimates, including the criteria of determining significant increase in credit risks and conducting sensitivity analysis on the weightings used for multiple economic scenarios;
- Testing the data inputs to the ECL model on a sample basis to verify the data completeness and accuracy;
- Assessing the existence and valuation of collaterals for margin loans held on a sample basis by examining the Group's and the clearing house's records and checking quoted market prices at year end against independent source and the liquidity of the underlying market securities with reference to the recent trading volume;

Independent Auditor's Report (Continued)

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) was considered a key audit matter due to the size of balance and significant management judgment involved.	• Assessing the appropriateness of impairment allowance made by the Group on margin loans and fair value through other comprehensive income (debt investments) in stage 3, on a sample basis, by evaluating the reasonableness of the key assumptions and management judgment involved with reference to the economic background, financial information of the borrowers, repayment history and repayment plan of borrowers, if applicable. Based on the result of our procedures, we considered the management's impairment assessment of margin loans to customers and financial assets at fair value through other comprehensive income (debt investments) to be acceptable.
Valuation assessment of Level 3 financial instruments Refer to Note 41.3 to the consolidated financial statements. As at 31 December 2019, the Level 3 financial instruments were mainly made up of unlisted funds, debt investments and preference shares. The amount consisted of HK$240,009 thousand financial assets at fair value through other comprehensive income and HK$3,504,300 thousand financial assets at fair value through profit or loss. The valuation of the Level 3 financial instruments was based on valuation models that required a considerable number of inputs. Since many of the significant inputs were not based on observable market data, significant management judgment and estimates were involved in the valuation process.	Our audit procedures in relation to the valuation assessment of Level 3 financial instruments included: • Evaluating and testing the relevant controls over the valuation and classification of levels for Level 3 financial instruments; • Evaluating the competency of the valuation experts used by the management, and testing the appropriateness of models used for the valuation of Level 3 financial instruments, on a sample basis, with reference to market practice; • For selected Level 3 financial instruments, inspecting and evaluating the terms and conditions of the underlying investment agreements relevant to valuation; • Evaluating on a sample basis the appropriateness and reasonableness of the model inputs and testing the mathematical accuracy of the computation.

KEY AUDIT MATTERS (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Due to the significant balance of Level 3 financial instruments, significant management judgment on the use of valuation models and unobservable inputs, the valuation of Level 3 financial instruments is identified as a key audit matter.	• For Level 3 financial instruments disposed during the year, evaluating and comparing the disposal proceeds to prior year valuation results in order to test the reasonableness of management's estimates in valuation. Based on the result of our procedures, we found the valuation results at Level 3 financial instruments to be acceptable.

OTHER INFORMATION

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

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

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

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

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

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

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

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

Independent Auditor's Report (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2020

Consolidated Income Statement

For the year ended 31 December 2019

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

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

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

Consolidated Statement of Financial Position

At 31 December 2019

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

Consolidated Statement of Financial Position (Continued)

At 31 December 2019

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

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

Tan Yueheng,
Chairman and Executive Director

Cheng Chuange,
Deputy Chief Executive Officer & Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Attributable to owners of the Company						
	Share capital HK$'000	Retained earnings HK$'000	Revaluation reserve HK$'000	Foreign currency translation reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 31 December 2018	**3,942,216**	**2,520,038**	**(170,708)**	**(17,472)**	**6,274,074**	**134**	**6,274,208**
Impact on initial application of HKFRS 16	**–**	**(4,418)**	**–**	**–**	**(4,418)**	**–**	**(4,418)**
Adjusted balance at 1 January 2019	**3,942,216**	**2,515,620**	**(170,708)**	**(17,472)**	**6,269,656**	**134**	**6,269,790**
Profit for the year	**–**	**500,567**	**–**	**–**	**500,567**	**72**	**500,639**
Other comprehensive (loss)/income for the year	**–**	**(18,599)***	**3,550**	**(8,441)**	**(23,490)**	**(364)**	**(23,854)**
Total comprehensive income for the year	**–**	**481,968**	**3,550**	**(8,441)**	**477,077**	**(292)**	**476,785**
Capital contribution by non-controlling interests	**–**	**–**	**–**	**–**	**–**	**100,119**	**100,119**
Dividends paid to ordinary shares (Note 15)	**–**	**(218,751)**	**–**	**–**	**(218,751)**	**–**	**(218,751)**
Dividends paid by a subsidiary	**–**	**–**	**–**	**–**	**–**	**(133)**	**(133)**
At 31 December 2019	**3,942,216**	**2,778,837**	**(167,158)**	**(25,913)**	**6,527,982**	**99,828**	**6,627,810**
At 31 December 2017	3,942,216	2,399,314	14,508	–	6,356,038	4,077	6,360,115
Impact on initial application of HKFRS 9	–	(62,115)	(11,269)	–	(73,384)	–	(73,384)
Adjusted balance at 1 January 2018	3,942,216	2,337,199	3,239	–	6,282,654	4,077	6,286,731
Profit for the year	–	407,605	–	–	407,605	3,391	410,996
Other comprehensive loss for the year	–	(6,015)*	(173,947)	(17,472)	(197,434)	–	(197,434)
Total comprehensive income for the year	–	401,590	(173,947)	(17,472)	210,171	3,391	213,562
Dividends paid to ordinary shares (Note 15)	–	(218,751)	–	–	(218,751)	–	(218,751)
Dividends paid by a subsidiary	–	–	–	–	–	(7,334)	(7,334)
At 31 December 2018	3,942,216	2,520,038	(170,708)	(17,472)	6,274,074	134	6,274,208

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

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

Consolidated Statement of Cash Flows (Continued)
For the year ended 31 December 2019

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

1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policies and disclosures

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

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

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

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

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) *Business combinations*

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

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

Acquisition-related costs are expensed as incurred.

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) *Business combinations (continued)*

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

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

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

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

(c) *Disposal of subsidiaries*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Subsidiaries (continued)

2.2.2 Separate financial statements

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

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

2.3 Associates

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Associates (continued)

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

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

2.4 Joint arrangements

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Segment reporting

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

2.6 Revenue recognition

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

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

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

(d) Disposal of foreign operation and partial disposal

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Borrowing costs

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

2.9 Taxation

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

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Taxation (continued)

(b) Deferred income tax (continued)

Outside basis differences

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

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

(c) Offsetting

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

2.10 Financial instruments

2.10.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

– those to be measured at amortised cost

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.1 Classification (continued)

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

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

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

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

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

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

- the designated eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on different bases;

- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information is provided internally on that basis to key management personnel;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.1 Classification (continued)

- hybrid instruments containing one or more embedded derivatives, unless the embedded derivative(s) does not significantly modify the cash flows or it is clear with little or no analysis that the embedded derivative(s) would not be separately recorded;

- hybrid instruments containing embedded derivatives which need to be separated but cannot be separately measured on acquisition date or subsequent reporting date.

2.10.2 Recognition and derecognition

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

2.10.3 Measurement

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

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

Debt instruments

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.3 Measurement (continued)

Debt instruments (continued)

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

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within"proprietary trading income" in the period in which it arises.

Equity instruments

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

Changes in the fair value of financial assets at FVPL are recognised in "proprietary trading income" in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.3 Measurement (continued)

Financial liabilities

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

Other financial liabilities

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

2.10.4 Impairment of financial assets

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Financial instruments (continued)

2.10.4 Impairment of financial assets (continued)

Margin loans to customers

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

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

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

Debt investments at FVOCI

For debt investments at FVOCI that are considered to have low credit risk, and the loss allowance recognised during the period was limited to 12 months expected losses. Management consider "low credit risk" for listed bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. In the event of a significant increase in credit risk, the Group recognises lifetime expected losses based on the significant increase in the likelihood or risk of a default occurring since initial recognition.

Other financial assets at amortised cost

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

Loan commitments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Offsetting financial instruments

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

2.12 Margin loans to customers

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

2.13 Cash and cash equivalents

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

2.14 Share capital

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

2.15 Employee benefits

The Group operates defined contribution pension plans.

(a) Pension obligations

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

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

(b) Employee leave entitlements

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Property and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.18).

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

2.17 Intangible assets

Trading rights

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Impairment of non-financial assets

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

2.19 Borrowings

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

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

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

2.20 Contingent liabilities

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Provisions

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

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

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

2.22 Receivable from reverse repurchase agreements and obligation under repurchase agreements

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Leases

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

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (Note 39). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Leases (continued)

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

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

– the amount of the initial measurement of lease liability

– any lease payments made at or before the commencement date less any lease incentives received

– any initial direct costs, and

– restoration costs.

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

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

3. CHANGES IN ACCOUNTING POLICIES

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

3. CHANGES IN ACCOUNTING POLICIES (continued)

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

3. CHANGES IN ACCOUNTING POLICIES (continued)

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

	1/1/2019 HK$'000
Buildings	**139,706**
Others	**163**
Total right-of-use assets	**139,869**

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Fair value of financial instruments

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Impairment allowances of financial assets

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

(c) Consolidation assessment of structured entities

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

(d) Determination of the lease term

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

5. SEGMENT INFORMATION

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

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

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

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

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

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

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

Inter-segment transactions, if any, are conducted with reference to the prices charged to external third parties. There was no change in basis during the year ended 31 December 2019.

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

5. SEGMENT INFORMATION (continued)

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

5. SEGMENT INFORMATION (continued)

	Year ended 31 December 2018							
	Brokerage HK$'000	Corporate finance and underwriting HK$'000	Asset management and advisory HK$'000	Margin financing HK$'000	Investment and loans HK$'000	Others HK$'000	Elimination HK$'000	Total HK$'000
Total revenue								
Revenue								
Commission and fee income								
• External	165,551	59,869	82,054	–	–	–	–	307,474
• Internal	–	–	7,072	–	–	–	(7,072)	–
Interest income								
• External	–	–	–	417,485	85,448	–	–	502,933
• Internal	–	–	–	–	33,025	–	(33,025)	–
Proprietary trading income								
• External	–	–	–	–	587,455	–	–	587,455
• Internal	–	–	–	–	–	–	–	–
Other income	20,760	–	6	–	17,957	47,674	–	86,397
	186,311	59,869	89,132	417,485	723,885	47,674	(40,097)	1,484,259
Total expenses	(219,155)	(125,598)	(97,927)	(192,891)	(466,381)	–	40,097	(1,061,855)
Share of results of associates	–	–	–	–	(179)	–	–	(179)
Share of results of joint ventures	–	–	–	–	41	–	–	41
Gain on disposal of an associate	–	–	–	–	15,380	–	–	15,380
(Loss)/profit before taxation	(32,844)	(65,729)	(8,795)	224,594	272,746	47,674	–	437,646
Other disclosures								
Depreciation	(1,821)	(111)	(1,263)	(5,546)	(64)	–	–	(8,805)
Change in impairment allowance	–	7,417	–	8,773	4,588	–	–	20,778
Finance costs	–	–	–	(97,057)	(288,195)	–	33,025	(352,227)

The geographical information of revenue is disclosed as follows:

	2019 HK$'000	2018 HK$'000
Total revenue from external customers by location of operations		
– Hong Kong	**1,493,972**	1,468,845
– Mainland China	**76,270**	15,414
	1,570,242	1,484,259

6. REVENUE AND OTHER INCOME

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

6. REVENUE AND OTHER INCOME (continued)

	2019 HK$'000	2018 HK$'000
OTHER INCOME		
Handling fees	**18,629**	20,841
Other interest income	**47,170**	36,675
Exchange gains	**49,987**	7,264
Others	**37,449**	21,617
	153,235	86,397

7. COMMISSION AND BROKERAGE EXPENSES

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

8. FINANCE COSTS

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

9. STAFF COSTS

	2019 HK$'000	2018 HK$'000
Salaries, bonus, staff allowances	**351,611**	338,642
Director's fees	**1,080**	1,080
Contributions to retirement benefit scheme	**21,687**	21,953
	374,378	361,675

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

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

Five highest paid individuals

The five individuals whose emolument were the highest in the Group include one director whose emolument is reflected in the analysis below for the years ended 31 December 2019 and 2018.

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

Number of individuals

	2019	2018
Individuals		
Emolument bands (HK$)		
4,500,001 – 5,000,000	**–**	1
5,000,001 – 5,500,000	**1**	–
5,500,001 – 6,000,000	**2**	1
6,000,001 – 6,500,000	**1**	–
6,500,001 – 7,000,000	**–**	1
7,000,001 – 7,500,000	**–**	–
7,500,001 – 8,000,000	**–**	1
12,500,001 – 13,000,000	**–**	–
Number of individuals	**4**	4

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

9. STAFF COSTS (continued)

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

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

10. BENEFITS AND INTERESTS OF DIRECTORS AND CHIEF EXECUTIVES

Directors' and chief executives' emoluments

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

For the year ended 31 December 2019

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

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

Directors' and chief executives' emoluments (continued)

For the year ended 31 December 2018

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

(1) Li Ying resigned with effect from 6 November 2019.
(2) Su Fen was appointed as Deputy Chief Executive Officer with effect from 11 July 2018.

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

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

11. OTHER OPERATING EXPENSES

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

12. CHANGE IN IMPAIRMENT ALLOWANCE

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

13. INCOME TAX EXPENSE

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

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

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

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

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

14. EARNINGS PER SHARE

(a) Basic

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

	2019	2018
Profit attributable to shareholders of the Company (in HK$'000)	**500,567**	407,605
Weighted average number of ordinary shares in issue (in '000 shares)	**2,734,392**	2,734,392
Earnings per share (in HKD per share)	**0.18**	0.15

(b) Diluted

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

15. DIVIDENDS

	2019 HK$'000	2018 HK$'000
Final dividend proposed after the end of the reporting period of HK$0.09 per ordinary share (2018: HK$0.08 per ordinary share)	**246,095**	218,751

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

16. PROPERTY AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Motor vehicles HK$'000	Office equipment HK$'000	Total HK$'000
Cost					
At 1 January 2018	36,448	4,481	6,490	73,233	120,652
Additions	3,527	60	3,146	14,163	20,896
Disposals	(1,119)	(159)	–	(699)	(1,977)
Exchange adjustments	(666)	(31)	(31)	(117)	(845)
At 31 December 2018 and 1 January 2019	38,190	4,351	9,605	86,580	138,726
Additions	195	520	423	12,526	13,664
Disposals	–	(540)	(430)	(10,120)	(11,090)
Exchange adjustments	(215)	(7)	(6)	(30)	(258)
At 31 December 2019	38,170	4,324	9,592	88,956	141,042
Accumulated depreciation					
At 1 January 2018	30,747	3,545	6,480	58,897	99,669
Charge for the year	1,624	265	474	6,442	8,805
Disposals	(556)	(87)	–	(553)	(1,196)
Exchange adjustments	(521)	(25)	(21)	(114)	(681)
At 31 December 2018 and 1 January 2019	31,294	3,698	6,933	64,672	106,597
Charge for the year	2,154	304	664	8,580	11,702
Disposals	–	(537)	(430)	(10,120)	(11,087)
Exchange adjustments	(186)	(6)	(6)	(26)	(224)
At 31 December 2019	33,262	3,459	7,161	63,106	106,988
Carrying values					
At 31 December 2018	6,896	653	2,672	21,908	32,129
At 31 December 2019	4,908	865	2,431	25,850	34,054

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

17. LEASES

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

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

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

(b) Amounts recognised in the consolidated income statement:

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

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

17. LEASES (continued)

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

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

18. INTANGIBLE ASSETS

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

	2019 HK$'000	2018 HK$'000
Trading rights of the SEHK	**3,196**	3,196

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

For the purpose of impairment testing on the intangible assets held by the Group, the recoverable amounts have been determined based on fair values less costs of disposal. For the years ended 31 December 2019 and 2018, no impairment loss for intangible assets was recognised, and there were no additions or disposals of intangible assets.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

19. INVESTMENT IN SUBSIDIARIES

As at 31 December 2019, the Company had direct or indirect interests in the following principal subsidiaries, which in the opinion of the directors, is material to the Group.

Name of subsidiaries	Place of incorporation, operation and kind of legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the Group 2019	2018	Directly held/ indirectly held
BOCOM International (Asia) Ltd.	Hong Kong, Limited Liability Company	Corporate finance	HKD10,000,000	**100%**	100%	Directly
BOCOM International Securities Ltd.	Hong Kong, Limited Liability Company	Dealing in securities and futures	HKD1,100,000,000	**100%**	100%	Directly
BOCOM International Asset Management Ltd.	Hong Kong, Limited Liability Company	Asset management	HKD100,000,000	**100%**	100%	Directly
BOCOM International (Shanghai) Equity Investment Management Co., Ltd.* 交銀國際（上海）股權投資管理有限公司	Shanghai, Limited Liability Company	Investment management and advisory service	2019: USD43,000,000 2018: USD33,000,000	**100%**	100%	Directly
BOCOM International China Fund G.P.	Cayman Islands, General Partnership	Investment management	USD1	**100%**	100%	Directly
BOCOM International China Dynamic Fund	Hong Kong, Investment fund of unit trust	Investment trading	2019: RMB36,238,693 2018: RMB30,488,856	**70.73%**	66.92%	Directly
Preferred Investment Management Limited	British Virgin Islands, Limited Liability Company	Investment management	USD100	**100%**	100%	Directly
Shanghai Bole Investment Co., Ltd* 上海博樂投資有限公司	Shanghai, Limited Liability Company	Investment trading	2019: RMB120,000,000 2018: RMB32,000,000	**100%**	100%	Indirectly
BOCOM International (Shanghai) Equity Investment Fund I L.P.* 交銀國際一期（上海）股權投資基金合夥企業（有限合夥)	Shanghai, Limited Partnership	Investment trading	2018: RMB1,841,687	**–**	93.64%	Indirectly
Shanghai Boli Investment Co., Ltd* 上海博禮投資有限公司	Shanghai, Limited Liability Company	Investment trading	2019: RMB105,000,000 2018: RMB11,000,000	**100%**	100%	Indirectly
BOCOM International Futures Limited**	Hong Kong, Limited Liability Company	Dealing in futures	HKD10,000,000	**100%**	100%	Indirectly

19. INVESTMENT IN SUBSIDIARIES (continued)

Name of subsidiaries	Place of incorporation, operation and kind of legal entity	Principal activities	Issued and fully paid-up capital	Equity interest held by the Group 2019	Equity interest held by the Group 2018	Directly held/ indirectly held
BOCOM International Equity Investment Management (Shenzhen) Company Limited* 交銀國際股權投資管理（深圳）有限公司	Shenzhen, Limited Liability Company	Investment management	USD5,000,000	**100%**	100%	Indirectly
BOCOM International Universal Investment Limited	British Virgin Islands, Limited Liability Company	Investment management	USD1	**100%**	100%	Directly
Brilliant Investment Management Limited	Cayman Islands, Limited Liability Company	Investment management	USD1	**100%**	100%	Indirectly
BOCOM International Balance Investment Limited	British Virgin Islands, Limited Liability Company	Investment management	USD1	**100%**	–	Indirectly
BOCOM International Radiant Investment Limited	British Virgin Islands, Limited Liability Company	Investment management	USD1	**100%**	–	Indirectly
BiMatrix Capital Limited	Hong Kong, Limited Liability Company	Investment management	USD1	**100%**	–	Indirectly
Shenzhen Boqiang Investment Consulting Co., Ltd.* 深圳博強投資諮詢有限公司	Shenzhen, Limited Liability Company	Investment trading and advisory service	–***	**100%**	–	Indirectly
Qiniu BOCOM International No. 1 Equity Fund* 七牛－交銀國際一號私募股權投資基金	Shenzhen, Contractual Fund	Investment trading	RMB31,093,280	**38.71%**	–	Indirectly
Nanjing Boyuan Equity Investment Co., Ltd.* 南京博遠股權投資有限公司	Nanjing, Limited Liability Company	Investment trading	RMB10,010,000	**100%**	–	Indirectly
BOCOM Science and Technology Innovation Equity Investment Fund (Shanghai) Partnership Enterprise L.P.* 交銀科創股權投資基金（上海）合夥企業（有限合夥）	Shanghai, Limited Partnership	Investment trading	RMB141,000,000	**50%**	–	Indirectly

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

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

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

Notes to the Consolidated Financial Statements (Continued)

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19. INVESTMENT IN SUBSIDIARIES (continued)

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

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

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

20. INTEREST IN ASSOCIATES

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

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

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

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

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

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

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

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20. INTEREST IN ASSOCIATES (continued)

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

Name of entity	Place of incorporation, operation and kind of legal entity	Principal activities	Measurement method	Issued and fully paid-up capital	2019	2018	Directly held/ Indirectly held
BIAM Leveraged Credit Fund SP	Cayman Islands, Investment fund	Investment trading	Equity	2019: USD78,278,459 2018: USD70,300,394	**33.12%**	35.60%	Directly
Jiaxing Henghao Equity Investment L.P.* 嘉興恒昊股權投資基金合夥企業（有限合夥）	Jiaxing, Limited Partnership	Private equity investment	Equity	RMB153,069,000	**9.79%**	9.79%	Indirectly
Jiaxing Hengyu Equity Investment L.P.* 嘉興恒昱股權投資基金合夥企業（有限合夥）	Jiaxing, Limited Partnership	Private equity investment	Equity	–**	**10%**	–	Indirectly
Jiaxing Hengsheng Equity Investment L.P.* 嘉興恒昇股權投資基金合夥企業（有限合夥）	Jiaxing, Limited Partnership	Private equity investment	Equity	–**	**10%**	–	Indirectly
Jiaxing Hengxuan Equity Investment L.P.* 嘉興恒暄股權投資基金合夥企業（有限合夥）	Jiaxing, Limited Partnership	Private equity investment	Equity	–**	**10%**	–	Indirectly
State Grid Yingda Industry Investment Funds Management Co., Ltd.* 國網英大產業投資基金管理有限公司	Beijing, Limited Liability Company	Investment management	Equity	RMB600,000,000	**10%**	–	Indirectly
Cross-border Interbank Payment System Co., Ltd.* 跨境銀行間支付清算（上海）有限責任公司	Shanghai, Limited Liability Company	Clearing	Equity	RMB2,380,000,000	**3.14%**	–	Indirectly

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

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

20. INTEREST IN ASSOCIATES (continued)

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

BIAM Leveraged Credit Fund SP

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

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20. INTEREST IN ASSOCIATES (continued)

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

20. INTEREST IN ASSOCIATES (continued)

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

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

21. INTEREST IN JOINT VENTURES

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

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

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21. INTEREST IN JOINT VENTURES (continued)

Set out below are the joint ventures of the Group as at 31 December 2019, which are held indirectly by the Group.

Name of entity	Place of incorporation, operation and kind of legal entity	Principal activities	Measurement method	Issued and fully paid-up capital	2019	2018
BOCOM NORINCO (Zhuhai) Equity Investment Management Co., Ltd* 交銀中兵（珠海）股權投資管理有限公司	Zhuhai, Limited Liability Company	Investment management and consultancy services	Equity	RMB3,000,000	–	51%
Baise BOCOM Fudi Poverty-relief and Development Fund L.P.* 百色交銀福地扶貧開發基金合夥企業（有限合夥)	Baise, Limited Partnership	Investment trading	Equity	RMB301,000,000	**0.02%**	0.02%
Chong Qing Liang Jiang Xin Qu Bo Ke Equity Investment Fund Partnership Enterprise L.P.* 重慶兩江新區博科股權投資基金合夥企業（有限合夥）	Chong Qing, Limited Partnership	Investment trading	Equity	RMB57,000,000	**51%**	–
Ningbo Bocom I Equity Investment Limited L.P.* 寧波交銀一期股權投資合夥企業（有限合夥)	Ningbo, Limited Partnership	Investment trading	Equity	RMB17,431,300	**0.17%**	–

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

21. INTEREST IN JOINT VENTURES (continued)

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

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

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

Notes to the Consolidated Financial Statements (Continued)
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21. INTEREST IN JOINT VENTURES (continued)

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

	2019 HK$'000	2018 HK$'000
Aggregate carrying amounts of individually immaterial joint ventures	**1,168**	2,915
Aggregate amounts of the Group's share of:		
Profit/(loss) after taxation	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–

22. OTHER ASSETS

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

23. FINANCIAL ASSETS AND LIABILITIES

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

Financial assets at fair value through other comprehensive income

	At 31 December 2019			
	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 equity	–	–	84,549	84,549
	755,413	–	84,549	839,962
Mandatorily measured at fair value through other comprehensive income				
Debt investments	3,635,117	–	155,460	3,790,577
	4,390,530	–	240,009	4,630,539
Analysed for reporting purposes:				
Non-current				3,172,930
Current				1,457,609
				4,630,539

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23. FINANCIAL ASSETS AND LIABILITIES (continued)

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

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

23. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets at fair value through profit or loss

	At 31 December 2019			
	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 equity	–	–	97,416	97,416
	140,815	–	1,336,149	1,476,964
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 product	–	–	106,879	106,879
	2,862,438	–	2,168,151	5,030,589
	3,003,253	–	3,504,300	6,507,553

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

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23. FINANCIAL ASSETS AND LIABILITIES (continued)

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

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

23. FINANCIAL ASSETS AND LIABILITIES (continued)

Derivative financial assets

	At 31 December 2019			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Derivative financial assets	**2,224**	**–**	**–**	**2,224**

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

Financial liabilities at fair value through profit or loss

	At 31 December 2019			
	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)**
	(11,765)	**(692,674)**	**(19,432)**	**(723,871)**

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

Notes to the Consolidated Financial Statements (Continued)
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23. FINANCIAL ASSETS AND LIABILITIES (continued)

Derivative financial liabilities

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

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

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

24. LOANS AND ADVANCES

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

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

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

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

25. ACCOUNTS RECEIVABLE

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

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

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

Notes to the Consolidated Financial Statements (Continued)

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25. ACCOUNTS RECEIVABLE (continued)

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

	2019 HK$'000	2018 HK$'000
Total market value of securities pledged as collateral in respect of the overdue accounts receivable – clients	**268,878**	339,119

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

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

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

26. OTHER RECEIVABLES AND PREPAYMENTS

	2019 HK$'000	2018 HK$'000
Other receivables	**296,109**	235,237
Less: impairment allowance	**(1,010)**	(258)
	295,099	234,979
Prepayments	**51,363**	66,020
	346,462	300,999

27. MARGIN LOANS TO CUSTOMERS

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

	2019 HK$'000	2018 HK$'000
Gross margin loans to customers	**2,774,924**	4,009,042
Less: impairment allowance	**(95,684)**	(90,671)
Net margin loans to customers	**2,679,240**	3,918,371

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

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

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.

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28. RECEIVABLE FROM REVERSE REPURCHASE AGREEMENTS

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

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

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

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

30. CASH AND BANK BALANCES

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

Bank balances carry interest at market rates

	2019	2018
Interest rates range	**0.01%-1.9%**	0.01%-2.00%

31. OTHER PAYABLES AND ACCRUED EXPENSES

	2019 HK$'000	2018 HK$'000
Other payables	**29,195**	17,410
Accrued expenses	**38,018**	76,957
	67,213	94,367

32. ACCOUNTS PAYABLE

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

	2019 HK$'000	2018 HK$'000
Clients – trade settlement	**367,768**	322,961
Clearing house	**36,679**	44,765
Brokers	**996**	128,879
	405,443	496,605

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

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

33. CONTRACT LIABILITIES

	2019 HK$'000	2018 HK$'000
Contract liabilities	**55,479**	18,128

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

Notes to the Consolidated Financial Statements (Continued)

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34. DEFERRED TAX ASSETS

The analysis of deferred tax assets is as follows:

	2019 HK$'000	2018 HK$'000
Deferred tax assets	**10,758**	18,685

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

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

34. DEFERRED TAX ASSETS (continued)

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

	Provision for staff costs HK$'000	Accrued expenses HK$'000	Tax loss HK$'000	Allowance for impairment loss HK$'000	Others HK$'000	Total HK$'000
At 31 December 2017	361	68	–	–	227	656
Impact on adoption of HKFRS 9	–	–	–	13,291	–	13,291
At 1 January 2018	361	68	–	13,291	227	13,947
Credited/(charged) to income statement	2	(19)	5,260	–	80	5,323
Offset deferred tax liabilities	–	–	–	–	(130)	(130)
Exchange difference arising from translation of foreign operations	–	–	–	–	(455)	(455)
At 31 December 2018	363	49	5,260	13,291	(278)	18,685
Credited/(charged) to income statement	5	44	4,470	(12,140)	(10)	(7,631)
Exchange difference arising from translation of foreign operations	–	–	–	–	(296)	(296)
At 31 December 2019	368	93	9,730	1,151	(584)	10,758

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

	2019 HK$'000	2018 HK$'000
Approximate estimated unused tax losses available for offset against future profits	**264,972**	276,276

Notes to the Consolidated Financial Statements (Continued)

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35. SHARE CAPITAL

	Number of shares		Share capital	
	2019 Thousand Shares	2018 Thousand Shares	2019 HK$'000	2018 HK$'000
Issued and fully paid				
At the end of the reporting period	**2,734,392**	2,734,392	**3,942,216**	3,942,216

36. BORROWINGS

(a) Outstanding borrowings

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

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

36. BORROWINGS (continued)

(b) Borrowings repayable

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

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

37. RELATED PARTY TRANSACTIONS

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

(a) Ultimate holding company

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

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

37. RELATED PARTY TRANSACTIONS (continued)

(a) Ultimate holding company (continued)

	2019 HK$'000	2018 HK$'000
Balance of transaction		
Derivative financial assets	**701**	5,306
Borrowings	**450,000**	850,000
Subordinated loans	**1,000,000**	1,000,000
Accounts payable	**95,922**	31,858
Amount due to the ultimate holding company	**5,459**	3,745

(b) Fellow subsidiaries, associates and joint ventures

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

	2019 HK$'000	2018 HK$'000
Balance of transaction		
Amount due from an associate	**547**	–
Amount due to a fellow subsidiary	**55**	83

37. RELATED PARTY TRANSACTIONS (continued)

(c) Related parties

	2019 HK$'000	2018 HK$'000
Transaction		
Interest income from debt investment	**2,631**	7,233
Fund management fee income	**16,351**	19,388

	2019 HK$'000	2018 HK$'000
Balance of transaction		
Gross amounts due from related parties	**1,941**	3,243
Less: impairment allowance	**(4)**	(1)
	1,937	3,242

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

(d) Key management personnel

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

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

	2019 HK$'000	2018 HK$'000
Salaries and other short-term employee benefits	**20,675**	20,524
Termination benefits	**–**	–
Post-employment benefits	**–**	–
Other long-term benefits	**1,705**	1,677
Share-based payments	**–**	–
	22,380	22,201

For details of the key management personnel of the Group in 2019, please refer to the section headed "Biographies of Directors and Senior Management" of this annual report.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

37. RELATED PARTY TRANSACTIONS (continued)

Notes

(i) Interest income from deposits

In the ordinary course of business, the Group placed its cash and cash equivalents and client monies with Bank of Communications Co., Ltd., Hong Kong Branch and PRC Branches, as well as a fellow subsidiary.

(ii) Finance costs

In the ordinary course of business, the Group obtained subordinated loans and bank loans from its ultimate holding company, Bank of Communications Co., Ltd., Hong Kong Branch, to finance its margin financing activities and daily operations. The above bank borrowings were entered at the relevant market rates at the time of the transactions.

(iii) Commission income

The commission income represented brokerage commission gained from a fellow subsidiary. Commission income was derived from the Group's securities brokerage business and determined on terms similar to those transactions conducted with independent third parties.

(iv) Commission expenses

The commission expenses represented rebate of brokerage commission income to the ultimate holding company and a fellow subsidiary in respect of the securities brokerage transactions. The rates were mutually agreed by the ultimate holding company/a fellow subsidiary and the Group.

(v) Asset management and advisory income

The Group has agreements with its ultimate holding company, a fellow subsidiary and associates under which the Group provides asset management and investment advisory services in return for asset management and advisory income. The ultimate holding company has also appointed a subsidiary of the Group to provide asset management service to its clients.

(vi) Fund management fee income

The Group has agreements with an associate BIAM Leveraged Credit Fund SP and its related parties, BOCOM International Dragon Core Growth Fund, Global Strategic Emerging Markets Bond Fund, BOCOM International Global Investment Limited, Horizon Investment Limited, Premium Investment Limited, Prosperity Investment Limited, BIAM Enhanced Income Fund as well as the ultimate holding company under which the Group provides asset management and investment advisory services, in return for management fee income.

(vii) Underwriting fee income

Underwriting fee income represented underwriting services provided to the ultimate holding company and a fellow subsidiary in relation to notes issuance.

(viii) Interest income from debt investment

Interest income from debt investment represented the interest income earned from investing in a senior note issued by a related party.

37. RELATED PARTY TRANSACTIONS (continued)

Notes (continued)

(ix) Borrowings

A portion of the bank loan was obtained from the ultimate holding company. Details of the bank loan are stated in Note 36(a).

(x) Subordinated loans

The subordinated loans from the ultimate holding company are unsecured, bear floating interest and undated. The loan arrangements are under regulatory condition. Details of the subordinated loans are stated in Note 36(a).

(xi) Rental expenses

The office and carpark rental expenses paid to the ultimate holding company and fellow subsidiaries were agreed by the ultimate holding company, fellow subsidiaries and the Group.

(xii) Other operating expenses

The other operating expenses paid to the ultimate holding company and fellow subsidiaries mainly included system usage fee, bank charges, custody fee, professional fee and insurance expense.

(xiii) Trading gains/losses and derivative financial assets from derivative transactions

Trading gains/losses and derivative financial assets from derivatives transactions represented gains/losses from over-the-counter derivative transactions in respect of commodities entered into between the Group and the ultimate holding company. The Group had effectively offset the risk by entering into exchange-traded futures contracts.

(xiv) Accounts receivable and accounts payable

They were balances due from/to the ultimate holding company and a fellow subsidiary in the Group's ordinary course of business.

(xv) Amount(s) due from/(to) the ultimate holding company/a fellow subsidiary/an associate/related parties

The amounts are unsecured, interest-free and repayable on demand and are of trade nature.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

38. STRUCTURED ENTITIES

The Group engages in various business activities with structured entities which are designed to achieve a specific business purpose. A structured entity is one that has been set up so that any voting rights or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate only to administrative tasks and the relevant activities are directed by contractual arrangements.

(a) Unconsolidated structured entities

The Group has been involved in unconsolidated structured entities through investments in structured entities or acting as the investment manager of the structured entities. The unconsolidated structured entities consist primarily of special purpose vehicles ("SPV") for investment trading on asset management business. The SPVs invest in a range of assets, most typically are bonds, unit trusts and preference shares. As the manager of the structured entities, the Group invests, on behalf of its clients, in the assets as described in the investment plan related to each fund and receives management fee income. The Group's remuneration as investment manager is limited to management fees and performance fees at market level and does not share significant variable returns of the investment, except for two SPVs, of which the Group has direct interest in an underlying asset. The Group records trading gains or losses from its investment in the structured entities. These structured entities are not consolidated by the Group.

Interests in unconsolidated structured entities and maximum exposure to unconsolidated structured entities

As at 31 December 2019 and 2018, the Group's total interests in unconsolidated structured entities on the consolidated statements of financial position and maximum exposure to loss from its interests in unconsolidated structured entities are summarised in the table below:

	2019 HK$'000	2018 HK$'000
Financial assets at fair value through other comprehensive income	**208,821**	116,119
Financial assets at fair value through profit or loss	**34,172**	30,812
Maximum exposure to loss	**3,228,431**	3,132,369

The Group's maximum exposure to loss is greater than the carrying amount of the Group's investments as the Group provides guarantee on the investment principal and return to one of the unconsolidated structured entities. However, the Group is of the view that the guaranteed return matches the expected portfolio return, hence the guaranteed return does not increase the risk of its involvement in this structured entity.

38. STRUCTURED ENTITIES (continued)

(a) Unconsolidated structured entities (continued)

Size of unconsolidated structured entities

The size of structured entities is measured by the fair value of investments managed by the unconsolidated structured entities. As at 31 December 2019 and 2018, the fair value of investments managed by the unconsolidated structured entities is summarised in the table below:

	2019 HK$'000	2018 HK$'000
Fair value of investments managed by the unconsolidated structure entities	**17,646,700**	17,220,632

Transactions with unconsolidated structured entities

For the years ended 31 December 2019 and 2018, the Group earned management fee for its investment management service in relation to fund. Interest income is recognised on the loans provided to structured entities and interest earned on holding the senior notes issued by structured entities. The total income derived from involvement with unconsolidated structured entities is summarised in the table below:

	2019 HK$'000	2018 HK$'000
Management fee income	**42,648**	50,858
Interest income	**2,631**	7,462
	45,279	58,320

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

38. STRUCTURED ENTITIES (continued)

(b) Consolidated structured entities managed and held by the Group

The Group has consolidated certain structured entities which are funds for investment trading on asset management business. When assessing whether to consolidate structured entities, the Group reviews all facts and circumstances to determine whether the Group, as manager, is acting as agent or principal. These factors considered include scope of the manager's decision-making authority, rights held by other parties, remuneration to which it is entitled and exposure to variability of returns. The Group concludes that these structured entities shall be consolidated.

The size of consolidated structured entities is measured by the fair value of investments managed by the consolidated structured entities. As at 31 December 2019 and 2018, the fair value of investments managed by the consolidated structured entities is summarised in the table below:

	2019 HK$'000	2018 HK$'000
Fair value of investments managed by the consolidated structure entities	**759,532**	36,572

The financial impact of any individual fund on the Group's financial performance is not significant.

During the years ended 31 December 2019 and 2018, the Group did not provide financial support for any of the consolidated structured entities.

There were no contractual liquidity arrangements or other commitments between the Group, structured entities or any third parties that could increase the level of the Group's risk from or reduce its interest in structured entities during the years ended 31 December 2019 and 2018. No loss was incurred by the structured entities relating to the Group's interests in the structured entities, and the structured entities did not experience difficulty in financing their activities.

39. COMMITMENTS

Operating leases commitments

As at 31 December 2018, the future aggregate minimum lease payments under non-cancellable operating leases were presented under the principles of HKAS 17.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term or low-value leases. The table below indicates non-cancellable operating leases commitments related to short-term leases as at 31 December 2019:

	2019 HK$'000	2018 HK$'000
No later than 1 year	**13**	70,742
Later than 1 year and no later than 5 years	**–**	79,505
	13	150,247

Investment commitments

At the end of the Reporting Period, the Group had certain investment commitments contracted for at the end of the reporting period but not yet incurred. The amounts will be drawn down on as-needed basis. The table below provides further information regarding the commitments.

	2019 HK$'000	2018 HK$'000
Unfunded commitments	**169,575**	274,803

Loan commitments

The following table indicates the contractual amounts of the Group's credit related commitments which the Group has committed to its customers:

	2019 HK$'000	2018 HK$'000
Loan commitments		
– Under 1 year	**97,163**	–

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

40. CONTINGENT LIABILITIES

Guaranteed return by asset management service

In connection with the Group's asset management services, the Group entered into a service agreement in August 2015 which provides a client with a guarantee on the investment principal and return. The investment principal amounted to MOP500,000,000. The service agreement will expire in August 2020. In November 2016, the Group entered into another service agreement with the same client on similar terms for an additional investment principal of MOP500,000,000, which will expire in November 2021. In March 2018, the Group entered into another service agreement with the same client on similar terms for an additional investment principal of MOP2,000,000,000, which will expire in March 2023. Performance of the relevant investment portfolios will be subject to uncertainties such as market conditions and volatility.

The relevant investment portfolios mainly consist of fixed income instruments, and the total annual guarantee on investment return from the portfolios is MOP75,000,000. During the year ended 31 December 2018, the average yield of the relevant investment portfolio had been below the guaranteed return and the Group has paid the client HK$840,000 equivalent of guarantee fee to fulfil the guarantee provided. During the year ended 31 December 2019, the average yield of the relevant investment portfolios was above the guaranteed return. As such, no relevant contingent liability was recognised for the year ended 31 December 2019.

41. FINANCIAL RISK MANAGEMENT

41.1 Financial risk factors

The Group's major financial instruments include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, loans and receivables (made up of other assets, accounts and other receivables, loans and advances), margin loans to customers, receivable from reverse repurchase agreements, amounts due from an associate and related parties, cash and bank balances, accounts payable, borrowings, obligation under repurchase agreements, lease liabilities, subordinated loans from the ultimate holding company and amount due to the ultimate holding company/a fellow subsidiary. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group, from time to time, uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the Risk Management Department under policies approved by the Board of Directors. Risk Management Department identifies and evaluates certain risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Market risk

Market risk refers to the adverse effect that normal or specific changes in foreign exchange rates, interest rates, commodity prices or stock prices may have on products involving interest rates, currencies and stocks. The Group's market risk mainly includes currency risk, interest rate risk and other price risks. The market risk management aims to manage and monitor market risk, keep the potential losses associated with market risk within an acceptable level and maximise the returns.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Summary of financial assets and liabilities

	2019 HK$'000	2018 HK$'000
Financial assets		
Other assets	**24,710**	22,867
Loans and advances	**2,326,495**	1,425,351
Accounts receivable	**511,929**	641,190
Other receivables	**295,099**	234,979
Margin loans to customers	**2,679,240**	3,918,371
Receivable from reverse repurchase agreements	**604,583**	625,181
Amount due from an associate	**547**	–
Amounts due from related parties	**1,937**	3,242
Financial assets at fair value through other comprehensive income	**4,630,539**	2,503,218
Financial assets at fair value through profit or loss	**6,507,553**	4,141,644
Derivative financial assets	**2,224**	5,306
Cash and bank balances	**545,141**	594,005
	18,129,997	14,115,354
Financial liabilities		
Borrowings	**8,180,697**	5,751,830
Subordinated loans from the ultimate holding company	**1,000,000**	1,000,000
Obligation under repurchase agreements	**1,471,629**	672,082
Other payables	**29,195**	17,410
Accounts payable	**405,443**	496,605
Lease liabilities	**76,719**	–
Amount due to the ultimate holding company	**5,459**	3,745
Amount due to a fellow subsidiary	**55**	83
Financial liabilities at fair value through profit or loss	**723,871**	30,960
Derivative financial liabilities	**2,942**	5,289
	11,896,010	7,978,004

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Currency risk

The Group undertakes certain transactions denominated in foreign currencies; hence exposures to exchange rate fluctuations arise.

The carrying amount of the Group's major foreign currency denominated monetary assets and monetary liabilities at year end is as follows:

	As at 31 December 2019				
	HKD HK$'000	USD (in HKD equivalent) HK$'000	RMB (in HKD equivalent) HK$'000	Other foreign currencies (in HKD equivalent) HK$'000	Total HK$'000
Financial assets					
Other assets	24,015	–	695	–	24,710
Accounts receivable	383,554	104,985	20,140	3,250	511,929
Other receivables	26,701	248,496	18,904	998	295,099
Loans and advances	123,595	2,202,900	–	–	2,326,495
Margin loans to customers	2,521,332	157,908	–	–	2,679,240
Receivable from reverse repurchase agreements	–	604,583	–	–	604,583
Amount due from an associate	–	547	–	–	547
Amounts due from related parties	502	1,435	–	–	1,937
Financial assets at fair value through other comprehensive income	1,688	4,544,302	31,188	53,361	4,630,539
Financial assets at fair value through profit or loss	205,761	6,154,046	147,746	–	6,507,553
Derivative financial assets	–	730	–	1,494	2,224
Cash and bank balances	262,755	132,462	147,918	2,006	545,141
Total financial assets	3,549,903	14,152,394	366,591	61,109	18,129,997
Financial liabilities					
Borrowings	1,000,000	7,180,697	–	–	8,180,697
Subordinated loans from the ultimate holding company	1,000,000	–	–	–	1,000,000
Obligation under repurchase agreements	–	1,471,629	–	–	1,471,629
Other payables	17,377	11,773	13	32	29,195
Accounts payable	338,398	41,054	25,840	151	405,443
Lease liabilities	71,346	–	5,373	–	76,719
Amount due to the ultimate holding company	4,956	503	–	–	5,459
Amount due to a fellow subsidiary	55	–	–	–	55
Financial liabilities at fair value through profit or loss	–	678,501	33,605	11,765	723,871
Derivative financial liabilities	–	2,614	328	–	2,942
Total financial liabilities	2,432,132	9,386,771	65,159	11,948	11,896,010
Net on-balance sheet position	1,117,771	4,765,623	301,432	49,161	6,233,987

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

	As at 31 December 2018				
	HKD HK$'000	USD (in HKD equivalent) HK$'000	RMB (in HKD equivalent) HK$'000	Other foreign currencies (in HKD equivalent) HK$'000	Total HK$'000
Financial assets					
Other assets	21,654	–	1,213	–	22,867
Accounts receivable	275,926	338,024	18,901	8,339	641,190
Other receivables	47,208	90,357	97,414	–	234,979
Loan and advances	809,925	615,426	–	–	1,425,351
Margin loans to customers	3,681,856	235,963	–	552	3,918,371
Receivable from reverse repurchase agreements	–	625,181	–	–	625,181
Amounts due from related parties	888	2,354	–	–	3,242
Financial assets at fair value through other comprehensive income	41,662	2,394,992	9,182	57,382	2,503,218
Financial assets at fair value through profit or loss	298,710	3,810,884	32,050	–	4,141,644
Derivative financial assets	–	5,306	–	–	5,306
Cash and bank balances	258,530	125,599	196,647	13,229	594,005
Total financial assets	5,436,359	8,244,086	355,407	79,502	14,115,354
Financial liabilities					
Borrowings	1,400,000	4,351,830	–	–	5,751,830
Subordinated loans from the ultimate holding company	1,000,000	–	–	–	1,000,000
Obligation under repurchase agreements	–	672,082	–	–	672,082
Other payables	16,944	–	466	–	17,410
Accounts payable	171,789	299,923	21,722	3,171	496,605
Amount due to the ultimate holding company	3,745	–	–	–	3,745
Amount due to a fellow subsidiary	83	–	–	–	83
Financial liabilities at fair value through profit or loss	–	19,550	11,410	–	30,960
Derivative financial liabilities	–	5,289	–	–	5,289
Total financial liabilities	2,592,561	5,348,674	33,598	3,171	7,978,004
Net on-balance sheet position	2,843,798	2,895,412	321,809	76,331	6,137,350

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Currency risk (continued)

Currency risk refers to the risk that the Group's financial position with respect to foreign currency exposure will be affected as a result of fluctuations in major foreign exchange rates. The Group's currency risk mainly exposes to Renminbi, United States dollar and Singapore dollar currently. The directors of the Company consider the exchange rate of Hong Kong dollar against United States dollar is relatively stable under the current pegged rate system in Hong Kong. The other foreign currencies are not material compared to the total assets and liabilities of the Group. In the opinion of the directors, the Group are not subject to significant currency risk exposure.

Sensitivity analysis

The following table details the Group's sensitivity to a 10% change in Hong Kong dollar against the relevant foreign currencies. The 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at year end for a 10% change in foreign currency rate. The number shown below indicates an increase in profit where Hong Kong dollar weakens against the relevant currency. For a 10% strengthening of Hong Kong dollar against the relevant currency, there would be an equal and opposite impact on the profit.

Impact on profit after taxation

	2019 HK$'000	2018 HK$'000
RMB	**25,170**	26,871
Other foreign currencies	**4,105**	6,374

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk

The table below presents the residual maturities of the Group's financial assets and liabilities before their contractual re-pricing dates or their maturity dates (whichever are earlier):

As at 31 December 2019	Overdue HK$'000	Within 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial assets								
Other assets	–	–	–	–	–	–	24,710	24,710
Loans and advances	–	–	–	817,323	1,509,172	–	–	2,326,495
Accounts receivable	–	511,929	–	–	–	–	–	511,929
Other receivables	–	–	–	–	–	–	295,099	295,099
Margin loans to customers	–	2,679,240	–	–	–	–	–	2,679,240
Receivable from reverse repurchase agreements	–	604,583	–	–	–	–	–	604,583
Amount due from an associate	–	–	–	–	–	–	547	547
Amounts due from related parties	–	–	–	–	–	–	1,937	1,937
Financial assets at fair value through other comprehensive income	–	108,800	135,549	1,213,260	2,009,262	323,705	839,963	4,630,539
Financial assets at fair value through profit or loss	–	–	–	861,120	2,109,281	227,281	3,309,871	6,507,553
Derivative financial assets	–	–	–	–	–	–	2,224	2,224
Cash and bank balances	–	543,445	–	1,696	–	–	–	545,141
	–	4,447,997	135,549	2,893,399	5,627,715	550,986	4,474,351	18,129,997

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

As at 31 December 2019	Overdue HK$'000	Within 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial liabilities								
Borrowings	–	8,180,697	–	–	–	–	–	8,180,697
Subordinated loans from the ultimate holding company	–	1,000,000	–	–	–	–	–	1,000,000
Obligation under repurchase agreements	–	1,471,629	–	–	–	–	–	1,471,629
Other payables	–	–	–	–	–	–	29,195	29,195
Accounts payable	–	–	–	–	–	–	405,443	405,443
Lease liabilities	–	5,046	10,040	36,614	25,019	–	–	76,719
Amount due to the ultimate holding company	–	–	–	–	–	–	5,459	5,459
Amount due to a fellow subsidiary	–	–	–	–	–	–	55	55
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	723,871	723,871
Derivative financial liabilities	–	–	–	–	–	–	2,942	2,942
	–	10,657,372	10,040	36,614	25,019	–	1,166,965	11,896,010
Interest rate sensitivity gap	–	(6,209,375)	125,509	2,856,785	5,602,696	550,986	3,307,386	6,233,987

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

As at 31 December 2018	Overdue HK$'000	Within 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial assets								
Other assets	–	–	–	–	–	–	22,867	22,867
Loans and advances	–	–	–	1,269,215	156,136	–	–	1,425,351
Accounts receivable	–	641,190	–	–	–	–	–	641,190
Other receivables	–	–	–	–	–	–	234,979	234,979
Margin loans to customers	–	3,918,371	–	–	–	–	–	3,918,371
Receivable from reverse repurchase agreements	–	625,181	–	–	–	–	–	625,181
Amounts due from related parties	–	–	–	–	–	–	3,242	3,242
Financial assets at fair value through other comprehensive income	–	–	39,187	173,712	798,518	295,258	1,196,543	2,503,218
Financial assets at fair value through profit or loss	–	–	10,692	196,323	677,281	–	3,257,348	4,141,644
Derivative financial assets	–	–	–	–	–	–	5,306	5,306
Cash and bank balances	–	592,338	–	1,667	–	–	–	594,005
	–	5,777,080	49,879	1,640,917	1,631,935	295,258	4,720,285	14,115,354

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

As at 31 December 2018	Overdue HK$'000	Within 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
Financial liabilities								
Borrowings	–	5,751,830	–	–	–	–	–	5,751,830
Subordinated loans from the ultimate holding company	–	1,000,000	–	–	–	–	–	1,000,000
Obligation under repurchase agreements	–	672,082	–	–	–	–	–	672,082
Other payables	–	–	–	–	–	–	17,410	17,410
Accounts payable	–	–	–	–	–	–	496,605	496,605
Amount due to the ultimate holding company	–	–	–	–	–	–	3,745	3,745
Amount due to a fellow subsidiary	–	–	–	–	–	–	83	83
Financial liabilities at fair value through profit or loss	–	–	–	–	–	–	30,960	30,960
Derivative financial liabilities	–	–	–	–	–	–	5,289	5,289
	–	7,423,912	–	–	–	–	554,092	7,978,004
Interest rate sensitivity gap	–	(1,646,832)	49,879	1,640,917	1,631,935	295,258	4,166,193	6,137,350

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to the "margin loans to customers", "cash and bank balances", "borrowings" and "subordinated loans from the ultimate holding company" as well as interest-bearing "accounts receivable", "receivable from reverse repurchase agreements" and "loans and advances" carried at amortised costs with floating interest rates.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") and London Interbank Offered Rate ("LIBOR") as its interest-bearing assets and liabilities are mainly Hong Kong dollar and United States dollar denominated. The Group mainly manages interest rate risk through adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risk by diversification of assets.

	2019 HK$'000	2018 HK$'000
Assets		
Accounts receivable – dealing in securities and futures	**499,487**	626,076
Margin loans to customers	**2,679,240**	3,918,371
Receivable from reverse repurchase agreements	**604,583**	625,181
Loans and advances	**2,326,495**	1,425,351
Cash and bank balances	**545,141**	594,005
Liabilities		
Borrowings	**(8,180,697)**	(5,751,830)
Subordinated loans from the ultimate holding company	**(1,000,000)**	(1,000,000)
Obligation under repurchase agreements	**(1,471,629)**	(672,082)
	(3,997,380)	(234,928)

The following table illustrates the potential impact, of a parallel upward or downward shift of 25 basis points in interest rate curves on the Group's net profit for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at year end.

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Change in basis points

	31 December			
	2019		2018	
	+25	−25	+25	−25
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation	**(8,345)**	**8,345**	(490)	490

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to investments in debt securities classified as financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss carried at fixed interest rate. The Group monitors the interest rate risks by quantifying market exposure in duration terms.

The Group's fair value interest rate risk exposure is summarised as follows:

	2019 HK$'000	2018 HK$'000
Financial assets at fair value through other comprehensive income – debt	**3,790,577**	1,306,675
Financial assets at fair value through profit or loss – debt	**2,754,622**	444,031
Financial liabilities at fair value through profit or loss – notes payable	**(692,674)**	–

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The following table illustrates the potential impact, of a parallel upward or downward shift of 25 basis points in interest rate curves on the Group's net profit and equity for the next twelve months from the reporting date, based on the Group's positions of interest-earning assets and interest-bearing liabilities at the end of each reporting period.

Change in basis points

	31 December			
	2019		2018	
	+25	−25	+25	−25
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation	**(4,507)**	**4,535**	(1,298)	1,302
Impact on equity	**(16,571)**	**16,716**	(8,062)	8,163

(iv) Other price risk

The Group is exposed to equity price risk because of investments held by the Group and classified on the consolidated statement of financial position as financial assets at fair value through other comprehensive income, and at fair value through profit or loss. The directors of the Company manage the exposure by closely monitoring the portfolio of investments.

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 percent change is used when reporting equity price risk internally to key management personnel and represents management's assessment of the reasonably possible change in equity price.

Profit after taxation for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through profit or loss. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as fair value through other comprehensive income.

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) *Market risk (continued)*

(iv) Other price risk (continued)

Financial assets at fair value through other comprehensive income

	2019 HK$'000	2018 HK$'000
Listed equity securities	**1,688**	2,475
Preference shares	**753,725**	1,127,504
Unlisted equity	**84,549**	66,564
	839,962	1,196,543
Impact on equity		
Increases by 10%	**83,996**	119,654
Decreases by 10%	**(83,996)**	(119,654)

Financial assets at fair value through profit or loss

	2019 HK$'000	2018 HK$'000
Listed equity securities	**214,459**	182,873
Preference shares	**1,238,733**	1,037,617
Funds	**34,172**	30,812
Unlisted fund	**1,616,259**	1,925,854
Unlisted equity	**97,416**	78,200
Equity-linked loan	**443,061**	440,266
	3,644,100	3,695,622
Impact on profit after taxation		
Increases by 10%	**304,282**	308,584
Decreases by 10%	**(304,282)**	(308,584)

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(a) Market risk (continued)

(iv) Other price risk (continued)

Derivative financial assets

	2019 HK$'000	2018 HK$'000
Derivative financial assets	**2,224**	5,306
Impact on profit after taxation		
Increases by 10%	**186**	443
Decreases by 10%	**(186)**	(443)

Financial liabilities at fair value through profit or loss

	2019 HK$'000	2018 HK$'000
Financial liabilities to the investors of the funds consolidated	**(11,765)**	(11,410)
Notes payable	**(692,674)**	–
Structure note payable	**(19,432)**	(19,550)
	(723,871)	(30,960)
Impact on profit after taxation		
Increases by 10%	**(60,443)**	(2,585)
Decreases by 10%	**60,443**	2,585

Derivative financial liabilities

	2019 HK$'000	2018 HK$'000
Derivative financial liabilities	**(2,942)**	(5,289)
Impact on profit after taxation		
Increases by 10%	**(246)**	(442)
Decreases by 10%	**246**	442

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk

The Group's credit risk arises from the possibility that a client or counterparty in a transaction may default. Credit exposures arise principally in debt securities carried at fair value through other comprehensive income and at fair value through profit or loss, derivative financial assets, accounts receivable, loans and advances, receivable from reverse repurchase agreements, margin loans to customers, other assets, amount(s) due from the ultimate holding company/subsidiaries/an associate/related parties, other receivables, cash and bank balances and subordinated loans to subsidiaries. In order to minimise the credit risk, the Group has credit policies in place and the exposure to this risk is monitored on an ongoing basis. The Group employs a range of policies and practises to mitigate credit risk.

The Credit Committee is mainly in charge of the risk management of the securities brokerage and margin financing business and the implementation of the credit risk policies. The primary responsibilities of the Credit Committee include: (i) monitoring the risk management performance with reference to the various risk indicators, such as the loan-to-margin ratio and loan-to-value ratio, the percentage of margin loans attributable to the Group's top 20 customers by loan balance, and margin loan balance attributable to a single client; (ii) maintaining a list of shares qualified as collateral for the margin financing business and reviewing such list periodically; (iii) approving customers' applications on trading limit and credit limit; and (iv) developing risk management policies for transactions of cash accounts and institutional clients as well as settlement arrangements.

The Risk Management Committee is primarily responsible for designing the risk management structure and strategies for the principal businesses, reviewing and monitoring the implementation of risk management policies for the principal businesses, identifying risks and updating the risk management policies in response to changes. The Credit Risk Team of the Risk Management Department is responsible for the credit risk management of the securities brokerage and margin financing business, participating in the review process and supervising the relevant risk management work.

The Group seeks to control the credit risk exposure within the tolerance level and maximise the risk adjusted returns by identifying, quantifying, monitoring and managing credit risk based on the risk preference and net capital level. The Group has established a credit risk management framework covering all stages from due diligence, credit review and collateral management to post-loan credit examination. The Group monitors the loan-to-margin ratio and loan-to-value ratio on a regular basis of each client to whom the Group has provided financing and take appropriate actions to recover or minimise the losses. A daily report on the client's outstanding loan amount, value of the collateral and loan-to-margin and loan-to-value ratio is generated for the Group's ongoing monitoring and review. The Group has utilised tools such as limit indicators, admission criteria, due diligence standards and internal audit requirements in developing the business in accordance with the Group's risk appetite.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancement:

	2019 HK$'000	2018 HK$'000
Other assets	**24,710**	22,867
Loans and advances	**2,326,495**	1,425,351
Accounts receivable	**511,929**	641,190
Other receivables	**295,099**	234,979
Margin loans to customers	**2,679,240**	3,918,371
Receivable from reverse repurchase agreements	**604,583**	625,181
Amount due from an associate	**547**	–
Amounts due from related parties	**1,937**	3,242
Financial assets at fair value through other comprehensive income – debt	**3,790,577**	1,306,675
Financial assets at fair value through profit or loss – debt	**2,754,622**	444,031
Derivative financial assets	**2,224**	5,306
Cash and bank balances	**545,141**	594,005
Loan commitments	**97,163**	–
	13,634,267	9,221,198

Other assets

Other assets are mainly guarantee fund and reserve funds maintained with Central Clearing and Settlement System, Hong Kong Futures Exchange ("HKFE") Clearing Corporation Limited and SEHK Options Clearing House Limited ("SEOCH").

Loans and advances and loan commitments

The Group assesses credit risk of loans to corporate clients by performing credit assessments, which are also subject to regular review and monitoring.

For the loans guaranteed by a third party, the Group will assess the guarantor's financial condition, credit history and ability to meet obligations.

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

Loans and advances and loan commitments (continued)

Risk Management Department provides regular credit management information reports and ad hoc reports to the Risk Committee, Investment Committee and Board of Directors to facilitate their continuous monitoring of credit risk. In addition, the Group identifies credit concentration risk by industry, geography, client and counterparty. The Group monitors changes to counterparty risk, quality of the credit portfolio and concentration risk, and reports regularly to the Group's Management.

The Group adopts loan grading criteria which divides credit assets into five categories with reference to the regulator's guidelines and alignment with the regulation of parent company – Bank of Communications Co., Ltd. as below:

"Pass" represents loans where the borrower is current in meeting its repayment obligations and full repayment of interest and principal is not in doubt.

"Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the Group's position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.

"Substandard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.

"Doubtful" represents loans where collection in full is improbable and the Group expects to sustain a loss of principal and/or interest, taking into account the net realisable value of the collateral.

"Loss" represents loans which are considered uncollectible after all collection options (such as the realisation of collateral or the institution of legal proceedings) have been exhausted.

Receivable from reverse repurchase agreements

To manage the credit risk associated with repurchase transactions, the Group performs due diligence and credit assessments on counterparties. A repurchase agreement will only be executed with eligible counterparties. In addition, only eligible securities will be accepted as collaterals with haircut depending on the collaterals' credit quality. The collateral value will be closely monitored. If collateral value drops below the requirement, additional collateral will be required and other follow-up actions will be arranged.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

Accounts receivable

For accounts receivable arising from the Group's corporate finance and underwriting activities, due diligence on client's business and repayment ability will be conducted before granting of credit. Corporate Finance, Equity Capital Markets and Debt Capital Markets Department will closely update the client's business change through frequent contact with client. Exit strategies are set in place before granting of each credit.

Credit risk from client securities dealing receivables under securities brokerage business is normally controlled through delivery-against-payment settlement and custody arrangement.

Evaluations, supplemented by assessments of underlying collaterals, are performed on all clients requiring credit. Those receivables arising from cash client accounts are due on two to three days after the trade date.

Other receivables

Based on past experience, the management believes that there has not been a significant change in credit quality of other receivables and the balance is still considered recoverable as most of the clients have no recent history of default and have a good track record with the Group. Impairment allowance was recognised using ECL model under the requirements of HKFRS 9.

Margin loans to customers

Margin clients of the Group are required to pledge their security investments to the Group for the facilities for securities trading. The amount of facilities granted to them is determined by the discounted values of the shares and is monitored on an ongoing basis.

The collateral for covering the credit risk exposure in case of default is subject to mark-to-market monitoring on a daily basis. Default, margin call and forced liquidation procedures are in place for margin clients. When a customer's margin loan balance exceeds the credit limit granted or a customer's loan-to-margin ratio exceeds 100%, the Group will generate an alerter to help monitor its status and decide whether any additional collateral are required. Amongst the customers with loan-to-margin ratio in excess of 200%, the Group will take into consideration of various factors such as customers' background and the interest rate of loan, in particular, the loan-to-value ratio in excess of 70% in making requests for additional collateral.

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

Margin loans to customers (continued)

No ageing analysis is disclosed, as in the opinion of the Directors, an ageing analysis does not give additional view of the nature of the margin loan business. The amount of credit facilities granted to margin clients is determined by the discounted market value of the collateral accepted by the Group.

Amount(s) due from the ultimate holding company/subsidiaries/associates/related parties

Amount(s) due from the ultimate holding company/subsidiaries/associates/related parties represents various income receivable arising from normal business transactions. The amounts are unsecured, interest-free and repayable on demand.

Debt securities

Debt securities are classified as financial assets at fair value through other comprehensive income and at fair value through profit or loss. The debt securities are mainly listed in The Hong Kong Stock Exchange, Shanghai Stock Exchange, Shenzhen Stock Exchange and some overseas exchanges. The Investment Committee of the Group assesses the financial strengths and performance of the issuers to ensure the issuers satisfy the repayment of principal and interest as they fall due. The Committee limits the size of the debt portfolio and limits the exposure to a single industry and issuer in order to control the credit risk. The Committee also closely monitors the changes in the credit ratings of the issuers and follows the market news for taking immediate actions if there is an indication of a deterioration of the repayment ability of the issuers.

Derivative financial assets

Derivative financial assets are commodity futures traded in active markets. The credit risk exposure is determined by the change in the market prices of the derivatives. The Group manages the credit risk by monitoring counterparty's credit rating and limiting its trades with stock exchanges.

Cash and bank balances

Cash and bank balances are placed in various authorised institutions and the directors of the Group consider the credit risk arising from cash and bank balances is minimal.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

Credit quality – debt securities and derivative financial instruments

The credit quality of debt securities and derivative financial instruments can be assessed by reference to credit ratings obtained from major rating agencies in the country where debt and derivative issuers are located (if available) or to historical information about counterparty default rates.

Financial assets at fair value through other comprehensive income – debt

	2019 HK$'000	2018 HK$'000
Standard & Poor's rating:		
BBB+	**68,403**	62,448
BBB	**255,302**	232,810
BB	**134,782**	19,797
BB–	**93,622**	19,245
B+	**10,671**	–
B–	**231,695**	206,673
CCC–	**84,835**	–
Fitch's rating:		
BBB	**32,186**	–
BB+	**78,575**	–
BB	**463,207**	–
BB–	**191,945**	–
Moody's rating:		
A3	**108,800**	–
Ba2	**120,121**	–
B2	**470,645**	146,121
B3	**–**	128,290
Caa1	**148,566**	140,796
No rating[1]	**1,297,222**	350,495
	3,790,577	1,306,675

[1] Financial assets with no rating represent listed and unlisted corporate debts.

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

Financial assets at fair value through profit or loss – debt

	2019 HK$'000	2018 HK$'000
Standard & Poor's rating:		
A+	**2,373**	3,909
BBB–	**23,383**	–
BB	**7,288**	–
B	**92,478**	–
B–	**712,934**	–
Fitch's rating:		
BBB+	**23,269**	–
BBB	**77,965**	10,692
BBB–	**110,161**	–
BB+	**47,055**	–
BB–	**125,166**	–
B+	**–**	19,627
B	**278,857**	–
Moody's rating:		
Ba1	**173,242**	163,158
Baa1	**–**	35,246
B2	**139,876**	–
B3	**224,547**	–
No rating[(1)]	**716,028**	211,399
	2,754,622	444,031

(1) Financial assets with no rating represent listed and unlisted corporate debts.

Derivative financial assets

	2019 HK$'000	2018 HK$'000
No rating	**2,224**	5,306

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

Derivative financial liabilities

	2019 HK$'000	2018 HK$'000
Standard & Poor's rating:		
A–	**690**	5,289
No rating	**2,252**	–
	2,942	5,289

The Group has eight types of financial assets that are subject to the ECL model:

– Loans and advances and loan commitments
– Receivable from reverse repurchase agreements
– Debt investments at FVOCI
– Margin loans to customers
– Accounts receivable
– Other receivables
– Amounts due from an associate and related parties, and
– Cash and bank balances.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

The Group established ECL model by using a statistical approach for financial instruments. This approach involves estimation of four risk parameters, i.e. Probability of Default ("PD"), Loss Given Default ("LGD"), Exposure at Default ("EAD") and expected life, as well as the use of effective interest rate ("EIR") and forward-looking information.

In calculating the ECL rates, forward-looking macroeconomic information, such as unemployment rate or gross domestic product ("GDP"), is incorporated as part of risk parameters estimation.

Various economic scenarios are considered such that a probability-weighted average ECL can be estimated. Three scenarios are proposed, i.e. good scenario, neutral scenario and bad scenario. By considering the corresponding probabilities of the scenarios, the probability-weighted average ECL can be estimated.

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering both quantitative and qualitative information. Stages are determined by significant credit deterioration criteria, including days past due, loan classification grade and rating notch downgrade since initial recognition. Usually, it should be regarded as a significant increase in credit risk if the overdue exceeds 30 days.

The Group considers a financial instrument is default, when it is credit-impaired. Generally, overdue for more than 90 days on contractual payment terms is considered default. The default definition applied by the Group is consistent with the definition used for internal credit risk management purposes for the relevant financial instrument and qualitative indicators have been considered when appropriate. In addition, other factors which cause significant increase in credit risk are considered according to qualitative reasoning and expert judgment.

The Group has applied a "three-stage" impairment model for ECL measurement based on changes in credit quality since initial recognition of financial assets as summarised below:

Stage 1: A loss allowance for a financial instrument should be measured at an amount equal to 12-month ECL if the credit risk on that financial instrument has not increased significantly since initial recognition.

Stage 2: A loss allowance for a financial instrument should be measured at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition.

Stage 3: Lifetime ECL are recognised on the financial instrument if the credit risk of a financial instrument increases to the point that it is considered credit-impaired.

The financial assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

No significant changes to estimation techniques or assumptions were made during the reporting period.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

Analysis of the gross carrying amount of financial instruments for which an ECL allowance is recognised as follows according to the stage of ECL:

	Stage of assets			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
(a) Margin loans to customers				
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	2,179,041	305,401	290,482	2,774,924
Gross carrying amount as at 1 January 2018	5,951,124	352,939	140,758	6,444,821
Increases	817,649	3,970	6,546	828,165
Decreases	(2,999,635)	(246,157)	(18,152)	(3,263,944)
Transfers between stages				
– Increase	277,361	481,153	12,064	770,578
– Decrease	(492,829)	(277,749)	–	(770,578)
As at 31 December 2018	3,553,670	314,156	141,216	4,009,042
(b) Accounts receivable, other receivables, and amounts due from an associate and related companies				
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	810,346	–	2,236	812,582
Gross carrying amount as at 1 January 2018	718,342	–	9,087	727,429
Increases	161,351	–	–	161,351
Decreases	–	–	(7,405)	(7,405)
As at 31 December 2018	879,693	–	1,682	881,375

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

	Stage of assets			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
(c) Debt investments at FVOCI				
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	3,614,637	95,506	80,434	3,790,577
Gross carrying amount as at 1 January 2018	2,166,835	–	–	2,166,835
Increases	323,817	–	–	323,817
Decreases	(1,183,977)	–	–	(1,183,977)
As at 31 December 2018	1,306,675	–	–	1,306,675
(d) Other financial assets at amortised cost				
Gross carrying amount as at 1 January 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	2,938,835	–	–	2,938,835
Gross carrying amount as at 1 January 2018	1,478,120	–	270,970	1,749,090
Increases	1,748,639	–	–	1,748,639
Decreases	(1,173,932)	–	–	(1,173,932)
As at 31 December 2018	2,052,827	–	270,970	2,323,797

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

As at 31 December 2019, the Group's credit risk exposure of financial instruments for which an ECL allowance is recognised as follows according to the stage of ECL:

	Stage of assets			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
(a) Margin loans to customers				
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	2,183	4,761	88,740	95,684
As at 1 January 2018	45,452	1,137	52,855	99,444
Increases	6,201	167	25,996	32,364
Reverses	(41,050)	(87)	–	(41,137)
Transfers between stages				
– Increase	1,093	127	–	1,220
– Decrease	(127)	(1,093)	–	(1,220)
As at 31 December 2018	11,569	251	78,851	90,671
(b) Accounts receivable, other receivables, and amounts due from an associate and related parties				
As at 1 January 2019	281	–	1,683	1,964
Increases	943	–	221	1,164
Reverses	(58)	–	–	(58)
As at 31 December 2019	1,166	–	1,904	3,070
As at 1 January 2018	424	–	9,088	9,512
Reverses	(143)	–	(7,405)	(7,548)
As at 31 December 2018	281	–	1,683	1,964

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

	Stage of assets			
	Stage 1 12-month ECL HK$'000	Stage 2 Lifetime ECL HK$'000	Stage 3 Lifetime ECL (credit-impaired) HK$'000	Total HK$'000
(c) Debt investments at FVOCI				
As at 1 January 2019	12,371	–	–	12,371
Increases	15,262	3,622	21,118	40,002
Reverses	(2,347)	–	–	(2,347)
Transfers between stages				
– Increase	–	2,024	537	2,561
– Decrease	(2,561)	–	–	(2,561)
As at 31 December 2019	22,725	5,646	21,655	50,026
As at 1 January 2018	13,373	–	–	13,373
Increases	4,186	–	–	4,186
Reverses	(5,188)	–	–	(5,188)
As at 31 December 2018	12,371	–	–	12,371
(d) Other financial assets at amortised cost				
As at 1 January 2019	2,295	–	270,970	273,265
Increases	7,467	–	–	7,467
Reverses	(2,005)	–	–	(2,005)
Write-off	–	–	(270,970)	(270,970)
As at 31 December 2019	7,757	–	–	7,757
As at 1 January 2018	5,750	–	270,970	276,720
Increases	1,918	–	–	1,918
Reverses	(5,373)	–	–	(5,373)
As at 31 December 2018	2,295	–	270,970	273,265

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

The following tables show the credit exposure to financial instruments as at 31 December 2019 and 31 December 2018:

	Stage of assets				
	Stage 1	Stage 2	Stage 3		
	12-month ECL HK$'000	Lifetime ECL HK$'000	Lifetime ECL (credit-impaired) HK$'000	Impairment allowance HK$'000	Total HK$'000
As at 31 December 2019					
Margin loans to customers	**2,179,041**	**305,401**	**290,482**	**(95,684)**	**2,679,240**
Accounts receivable, other receivables, and amounts due from an associate and related parties	**810,346**	**–**	**2,236**	**(3,070)**	**809,512**
Debt investments at FVOCI	**3,614,637**	**95,506**	**80,434**	**(50,026)**	**3,740,551**
Other financial assets at amortised cost	**2,938,835**	**–**	**–**	**(7,757)**	**2,931,078**
Loan commitments	**97,163**	**–**	**–**	**–**	**97,163**
As at 31 December 2018					
Margin loans to customers	3,553,670	314,156	141,216	(90,671)	3,918,371
Accounts receivable, other receivables, and amounts due from an associate and related parties	879,693	–	1,682	(1,964)	879,411
Debt investments at FVOCI	1,306,675	–	–	(12,371)	1,294,304
Other financial assets at amortised cost	2,052,827	–	270,970	(273,265)	2,050,532
Loan commitments	–	–	–	–	–

For accounts receivable and margin loans to customers, the market value of securities pledged as collateral held by the Group was greater than outstanding balances.

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

The table below showed the market value of securities pledged as collateral from clients:

	2019 HK$'000	2018 HK$'000
Total market value of securities pledged as collateral in respect of margin loans to customers	**11,563,508**	17,348,956
Total market value of securities pledged as collateral in respect of overdue accounts receivable – clients	**268,878**	339,119

Ageing analysis of past due accounts receivable

Accounts receivable

	Less than 30 days HK'000	31 to 60 days HK'000	61 to 90 days HK'000	More than 90 days HK'000	Total HK'000
At 31 December 2019					
Clients	**22**	**2**	**–**	**52**	**76**
Corporate finance services	**–**	**–**	**–**	**1,486**	**1,486**
Underwriting business	**–**	**–**	**–**	**1,949**	**1,949**
	22	**2**	**–**	**3,487**	**3,511**
At 31 December 2018					
Clients	122	66	5	145	338
Corporate finance services	–	–	–	387	387
Underwriting business	–	–	–	1,560	1,560
	122	66	5	2,092	2,285

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

For loans and advances, the Group assess the loans using the following credit grading assessment.

Gross loans and advances – grading

	2019 HK$'000	2018 HK$'000
Pass	**2,334,252**	1,427,613
Special Mention	**–**	–
Substandard	**–**	–
Doubtful	**–**	–
Loss	**–**	270,970
	2,334,252	1,698,583

The table below showed the market value of collateral from loans and advances.

	2019 HK$'000	2018 HK$'000
Total market value of collateral in respect of loans and advances	**5,563,000**	4,096,150

Economic scenarios and weightings

The significant assumptions used to estimate ECL are presented as three economic scenarios, including "Optimistic scenario", "Basic scenario", and "Pessimistic scenario", which are applicable to all groups. The weighting of "Basic scenario" adopted by the Group overweights the aggregated weightings of non "Basic scenario".

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(b) Credit risk (continued)

Sensitivity analysis

As at 31 December 2019, the probability-weighted impairment allowance increased by the following amount compared with basic scenario impairment allowance:

	As at 31 December 2019 HK$'000
Loans and advances	**2,590**
Debt securities	**6,160**
Margin finance	**(34)**

If the Optimistic and Pessimistic scenario weights are arised 10%, the impairment allowance of loans and advances will increase HK$2,590 thousand, and the impairment allowance of debt securities will increase HK$6,160 thousand.

(c) Liquidity risk

Liquidity risk refers to the risk of the Group's failure to obtain sufficient funds at a reasonable cost and in a timely manner to pay due debts, perform other payment obligations and satisfy the capital requirements to carry on the Group's businesses in the ordinary course. The licensed subsidiaries are required to maintain at all times liquid capital no less than the stipulated level under the Financial Resources Rules, and report to the SFC our liquidity positions on a monthly basis. The Group is responsible for the management of liquidity risk with the aim to maintain sufficient cash and marketable securities, ensure the availability of funding through an adequate amount of committed credit facilities and assess the ability to close out market positions.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The Finance and Accounting Department is responsible for compiling a daily cash position report in which the information of bank balances and loan balances of different maturities, expected cash inflows and outflows and outstanding loan facilities are all forecasted and computed. The Department would base on the report to monitor daily liquidity risk and foresee if any funding is required. Besides, some of the subsidiaries of the Group are regulated by SFC, those subsidiaries' liquid capital are calculated and assessed daily to fulfill the Financial Resources Rules.

The following table details the maturities analysis at the end of the reporting period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates) and the earliest date the Group is required to pay.

(i) Non derivatives

	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months – 1 year HK$'000	1 – 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2019						
Borrowings	3,231,118	26,889	122,032	5,033,430	–	8,413,469
Subordinated loans from the ultimate holding company	2,894	5,508	25,673	136,300	1,000,000	1,170,375
Obligation under repurchase agreements	–	487,734	277,068	727,614	–	1,492,416
Other payables	29,195	–	–	–	–	29,195
Accounts payable	405,443	–	–	–	–	405,443
Amount due to the ultimate holding company	5,459	–	–	–	–	5,459
Amount due to a fellow subsidiary	55	–	–	–	–	55
Financial liabilities at fair value through profit or loss	723,871	–	–	–	–	723,871
	4,398,035	520,131	424,773	5,897,344	1,000,000	12,240,283

41. FINANCIAL RISK MANAGEMENT (continued)

41.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

(i) Non derivatives (continued)

	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months – 1 year HK$'000	1 – 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2018						
Borrowings	779,616	31,128	141,015	5,258,340	–	6,210,099
Subordinated loans from the ultimate holding company	2,500	4,759	22,180	117,757	1,000,000	1,147,196
Obligation under repurchase agreements	–	5,189	193,936	478,146	–	677,271
Other payables	17,410	–	–	–	–	17,410
Accounts payable	496,605	–	–	–	–	496,605
Amount due to the ultimate holding company	3,745	–	–	–	–	3,745
Amount due to a fellow subsidiary	83	–	–	–	–	83
Financial liabilities at fair value through profit or loss	30,960	–	–	–	–	30,960
	1,330,919	41,076	357,131	5,854,243	1,000,000	8,583,369

(ii) Derivatives settled on a gross basis

The Group's derivative financial instruments that will be settled on a gross basis include commodity futures and currency futures contract.

	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months – 1 year HK$'000	1 – 5 years HK$'000	Undated HK$'000	Total HK$'000
At 31 December 2019						
Derivative financial instruments held for trading commodity futures						
Outflow	**–**	**–**	**(63,982)**	**–**	**–**	**(63,982)**
Inflow	**–**	**–**	**63,994**	**–**	**–**	**63,994**
At 31 December 2018						
Derivative financial instruments held for trading commodity futures						
Outflow	–	–	(86,761)	–	–	(86,761)
Inflow	–	–	87,083	–	–	87,083

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 Capital risk management

The Group's objectives when managing capital, which is a broader concept than the "equity" on the face of consolidated statement of financial position, are:

(i) to comply with the requirements of the Hong Kong Securities and Futures Ordinance ("HKSFO") for the Company's licensed subsidiaries in carrying various types of regulated activities;

(ii) to support the Group's stability and growth;

(iii) to optimise risk adjusted return to the shareholders; and

(iv) to maintain a strong capital base to support the development of its business.

The subsidiaries of the Company licensed under the HKSFO are also required to maintain adequate financial resources to support their businesses. The Securities and Futures (Financial Resources) Rules require a licensed corporation to maintain liquid capital which is not less than its required liquid capital. During the years, the Company's licensed subsidiaries have maintained adequate liquid capital to meet the requirement. During the years ended 31 December 2019 and 2018, the Company's licensed subsidiaries were regulated by the Hong Kong Securities and Futures Commission ("SFC") and they complied with the statutory capital requirement.

The Group manages its capital to ensure it will be able to continue as a going concern while maximising the return to shareholders. The capital structure of the Group consists of share capital and reserves. The Group's overall strategy remains unchanged throughout the years.

The Group has Capital Allocation policies. Directors, Finance and Accounting Department and Risk Management Department would discuss at the beginning of each year to set absolute and relative exposure limits of the capital to different classes of assets, after analysing the capital needs, potential returns and business risks of different segments of business. Throughout the year, the usage and allocation of capital would be closely scrutinised to make sure it would not be deviated from its plan. The purpose of these policies is to maximise the shareholders' return within a controllable risk level.

	2019 HK$'000	2018 HK$'000
Total borrowings (Note 36)	**10,652,326**	7,423,912
Total equity	**6,627,810**	6,274,208
Gearing ratio	**160.72%**	118.32%

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 Fair value estimation

Certain financial assets and liabilities of the Group are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Board of Directors periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

– Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

– Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

– Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as Level 1. The Group uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable. If the key parameters used in valuation techniques for financial instruments are substantially observable and obtainable from active open market, the instruments are classified as Level 2. The second hierarchy of financial instruments held by the Group includes equity securities, and its fair value is estimated by adopting option pricing methodologies. The main parameters used include the relevant yield curve, exchange rate and level of volatilities etc. All parameters used in valuation techniques are substantially observable and obtainable from active open market.

Level 3 financial instruments are valued using models which utilise observable Level 1 and/ or Level 2 inputs, as well as unobservable Level 3 inputs.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 Fair value estimation (continued)

As at 31 December 2019	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income				
Unlisted equity	Allocated net asset value	Net asset value	N/A	(iv)
	Market comparable approach	EBITDA multiples	10.7x–27.2x	(iii)
		Discount rate for lack of marketability	35%	(ii)
	Recent transaction price	(i)	N/A	(v)
Debt investments	Recent transaction price	(i)	N/A	(v)
Financial assets at fair value through profit or loss				
Club debenture	Recent transaction price	Liquidity discount rate	25%	(ii)
Unlisted equity	Recent transaction price	(i)	N/A	(v)
	Allocated net asset value	Net asset value	N/A	(iv)
Unlisted fund	Market comparable approach	Sales multiples	0.3x–7.3x	(iii)
		Discount rate for lack of marketability	15.5%–24.5%	(ii)
	Allocated net asset value	Net asset value	N/A	(iv)
	Recent transaction price	(i)	N/A	(v)
Preference shares	Recent transaction price	(i)	N/A	(v)
	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)/(v)/(vii)
Structured financial product	Guaranteed principal plus expected return	Expected rate	N/A	(vi)
Financial liabilities at fair value through profit or loss				
Structured note payable	Recent transaction price	(i)	N/A	(v)

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 Fair value estimation (continued)

As at 31 December 2018	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income				
Unlisted equity	Market comparable approach	EBITDA multiples	10.7x–27.2x	(iii)
		Discount rate for lack of marketability	35%	(ii)
	Allocated net asset value	Net asset value	N/A	(iv)
	Discounted cash flow	Discount rate	6.5%–8.4%	(ii)
Financial assets at fair value through profit or loss				
Club debenture	Recent transaction price	Liquidity discount rate	25%	(ii)
Unlisted equity	Recent transaction price	(i)	N/A	(v)
Unlisted fund	Market comparable approach	Sales multiples	1.0x–7.6x	(iii)
		Discount rate for lack of marketability	17.5%–20.5%	(ii)
	Allocated net asset value	Net asset value	N/A	(iv)
	Recent transaction price	(i)	N/A	(v)
	Exit price	(i)	N/A	(v)
Preference shares	Recent transaction price	(i)	N/A	(v)
Equity-linked loan	Discounted cash flow/Monte Carlo Simulation	Discount rate/(i)/Underlying fund terms	14.5%/N/A/ 3 years	(ii)/(v)/(vii)
Financial liabilities at fair value through profit or loss				
Structured note payable	Recent transaction price	(i)	N/A	(v)

(i) The Directors of the Company consider that the financial position of these investments has no significant change between its recent transaction date/exit date and the reporting date, and hence no adjustment to the recent transaction price/exit price is needed.

(ii) The higher the discount rate, the lower the fair value.

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 Fair value estimation (continued)

(iii) The higher the multiples, the higher the fair value.

(iv) The higher the net asset value, the higher the fair value.

(v) The higher the adjustment to the recent transaction price/exit price, the higher the fair value.

(vi) The higher the expected rate, the higher the fair value.

(vii) The longer the term of the underlying fund, the higher the fair value.

The following table presents the changes in Level 3 instruments for the year ended 31 December 2019 and 31 December 2018.

	2019 HK$'000	2018 HK$'000
Financial assets at fair value through other comprehensive income		
Beginning of the year	**125,301**	1,217,350
Addition during the year	**178,658**	58,774
Reclassification from financial assets at fair value through profit or loss	**–**	10,306
Reclassification to financial assets at fair value through profit or loss	**–**	(639,250)
Disposal during the year	**(58,737)**	(518,272)
Net loss recognised in profit or loss	**(1,080)**	(328)
Net loss recognised in other comprehensive income	**(4,133)**	(3,279)
End of the year	**240,009**	125,301

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 Fair value estimation (continued)

	2019 HK$'000	2018 HK$'000
Financial assets at fair value through profit or loss		
Beginning of the year	**3,483,928**	2,106,150
Addition during the year	**892,743**	2,209,546
Reclassification from financial assets at fair value through other comprehensive income	**–**	639,250
Reclassification to financial assets at fair value through other comprehensive income	**–**	(10,306)
Disposal during the year	**(1,006,052)**	(1,876,170)
Net gain recognised in profit or loss	**133,681**	415,458
End of the year	**3,504,300**	3,483,928

	2019 HK$'000	2018 HK$'000
Financial liabilities at fair value through profit or loss		
Beginning of the year	**19,550**	–
Addition during the year	**–**	19,550
Net loss recognised in profit or loss	**(118)**	–
End of the year	**19,432**	19,550

The Group adopted consistent and transparent methodology basing on these valuation techniques above for determining fair value. Regardless of the valuation methodology used, once used, it should continue to be used until a new methodology will provide a better approximation of the investment's current fair value. The management expected that there would not be frequent changes in valuation techniques.

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 Fair value estimation (continued)

Sensitivity analysis

The following table details the Group's sensitivity to changes of unobservable inputs. The changes on one or more of the unobservable inputs would materially change the fair value of financial instruments in Level 3. The number shown below indicates an increase in profit after taxation/total assets and other comprehensive income/equity where unobservable inputs have a reasonably possible shift as shown.

Change in net asset value

	2019		2018	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/total assets	**73,823**	**(73,823)**	91,460	(91,460)
Impact on other comprehensive income/equity	**5,336**	**(5,336)**	5,738	(5,738)

Change in adjustment to the recent transaction price/exit price

	2019		2018	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/total assets	**133,878**	**(133,878)**	108,813	(108,813)
Impact on other comprehensive income/equity	**14,833**	**(14,833)**	–	–

Change in expected rate

	2019		2018	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/total assets	**10,688**	**(10,688)**	–	–

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 Fair value estimation (continued)

Sensitivity analysis (continued)

Change in discount rate

	2019		2018	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on other comprehensive income/equity	**–**	**–**	(5,874)	5,874

Change in multiples

	2019		2018	
	+10%	−10%	+10%	−10%
	HK$'000	HK$'000	HK$'000	HK$'000
Impact on profit after taxation/total assets	**38,826**	**(38,826)**	53,707	(53,707)
Impact on other comprehensive income/equity	**900**	**(900)**	918	(918)

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.4 Offsetting financial assets and financial liabilities

The Group has net off the financial assets and financial liabilities with counterparties and clearing house for unsettled trades.

(a) *Financial assets*

As at 31 December 2019	Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000
Accounts receivable from			
– Clients	**456,906**	**(350,351)**	**106,555**
– Brokers	**130,157**	**(3,274)**	**126,883**
– Clearing house	**1,113,281**	**(847,493)**	**265,788**
– Corporate finance services	**5,533**	**–**	**5,533**
– Underwriting business	**7,170**	**–**	**7,170**
Margin loans to customers	**2,919,522**	**(240,282)**	**2,679,240**
Total	**4,632,569**	**(1,441,400)**	**3,191,169**

41. FINANCIAL RISK MANAGEMENT (continued)

41.4 Offsetting financial assets and financial liabilities (continued)

(a) Financial assets (continued)

As at 31 December 2018	Gross amount of recognised financial assets HK$'000	Gross amount of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000
Accounts receivable from			
– Clients	598,430	(211,513)	386,917
– Brokers	241,754	(115,170)	126,584
– Clearing house	541,235	(428,660)	112,575
– Corporate finance services	1,796	–	1,796
– Underwriting business	13,318	–	13,318
Margin loans to customers	4,104,926	(186,555)	3,918,371
Total	5,501,459	(941,898)	4,559,561

Notes to the Consolidated Financial Statements (Continued)
For the year ended 31 December 2019

41. FINANCIAL RISK MANAGEMENT (continued)

41.4 Offsetting financial assets and financial liabilities (continued)

(b) Financial liabilities

As at 31 December 2019	Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000
Accounts payable to			
– Clients	**958,401**	**(590,633)**	**367,768**
– Clearing house	**884,172**	**(847,493)**	**36,679**
– Brokers	**4,270**	**(3,274)**	**996**
Total	**1,846,843**	**(1,441,400)**	**405,443**

As at 31 December 2018	Gross amount of recognised financial liabilities HK$'000	Gross amount of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000
Accounts payable to			
– Clients	721,029	(398,068)	322,961
– Clearing house	473,425	(428,660)	44,765
– Brokers	244,049	(115,170)	128,879
Total	1,438,503	(941,898)	496,605

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31/12/2019 HK$'000	31/12/2018 HK$'000
Non-current Assets		
Property and equipment	**32,083**	29,163
Right-of-use assets	**48,424**	–
Interest in subsidiaries	**1,569,936**	1,491,616
Interest in associates	**195,375**	195,375
Subordinated loans to subsidiaries	**1,000,000**	800,000
Financial assets at fair value through other comprehensive income	**2,173,874**	2,072,507
Loans and advances	**1,509,172**	156,136
Total non-current assets	**6,528,864**	4,744,797
Current Assets		
Subordinated loans to subsidiaries	**431,402**	634,010
Loans and advances	**817,323**	573,077
Accounts receivable	**–**	19
Other receivables and prepayments	**209,485**	154,371
Receivable from reverse repurchase agreements	**110,377**	–
Amount due from the ultimate holding company	**1,804**	3,405
Amounts due from subsidiaries	**2,198,875**	1,142,672
Financial assets at fair value through other comprehensive income	**942,618**	–
Financial assets at fair value through profit or loss	**3,680,754**	3,523,775
Derivative financial assets	**2,195**	5,306
Cash and bank balances	**116,306**	22,311
Total current assets	**8,511,139**	6,058,946
Total assets	**15,040,003**	10,803,743
Equity and liabilities		
Equity attributable to shareholders of the Company		
Share capital	**3,909,555**	3,909,555
Retained earnings	**627,443**	588,901
Revaluation reserve	**(91,365)**	(165,720)
Total equity	**4,445,633**	4,332,736

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31/12/2019 HK$'000	31/12/2018 HK$'000
Non-current Liabilities		
Borrowings	**4,964,230**	4,988,200
Lease liabilities	**17,265**	–
Total non-current liabilities	**4,981,495**	4,988,200
Current Liabilities		
Borrowings	**3,216,467**	285,430
Provision for staff costs	**100,795**	77,903
Other payables and accrued expenses	**20,129**	69,136
Contract liabilities	**37,567**	1,665
Lease liabilities	**32,377**	–
Amounts due to subsidiaries	**2,204,850**	1,043,384
Derivative financial liabilities	**690**	5,289
Total current liabilities	**5,612,875**	1,482,807
Total liabilities	**10,594,370**	6,471,007
Total equity and liabilities	**15,040,003**	10,803,743
Net current assets	**2,898,264**	4,576,139
Total assets less current liabilities	**9,427,128**	9,320,936

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 25 March 2020 and signed on its behalf by:

Tan Yueheng,
Chairman and Executive Director

Cheng Chuange,
Deputy Chief Executive Officer & Executive Director

43. RESERVES OF THE COMPANY

	Retained earnings HK$'000	Revaluation reserve HK$'000
At 1 January 2018	470,010	9,467
Impact on initial application of HKFRS 9	5,130	(11,200)
Adjusted balance at 1 January 2018	475,140	(1,733)
Profit for the year	338,527	–
Other comprehensive loss for the year	(6,015)	(163,987)
Total comprehensive income/(loss) for the year	332,512	(163,987)
Final dividend for 2017	(218,751)	–
At 31 December 2018	588,901	(165,720)
At 1 January 2019	**588,901**	**(165,720)**
Impact on initial application of HKFRS 16	**(2,551)**	**–**
Adjusted balance at 1 January 2019	**586,350**	**(165,720)**
Profit for the year	**278,443**	**–**
Other comprehensive (loss)/income for the year	**(18,599)**	**74,355**
Total comprehensive income for the year	**259,844**	**74,355**
Final dividend for 2018	**(218,751)**	**–**
At 31 December 2019	**627,443**	**(91,365)**

Notes to the Consolidated Financial Statements (Continued)

For the year ended 31 December 2019

44. CASH HELD ON BEHALF OF BROKERAGE CLIENTS AND ASSET MANAGEMENT CLIENTS

The Group maintains segregated client accounts with licensed banks to hold client monies arising from normal business transactions in connection with the Group's brokerage and asset management business.

The Group

(a) ***Segregated client accounts with HKFE Clearing Corporation Limited ("HKCC")***

	2019 HK$'000	2018 HK$'000
Segregated client accounts with HKCC	**57,471**	42,427

(b) ***Segregated client accounts with SEHK Options Clearing House Limited ("SEOCH") in conjunction with its futures and options business***

	2019 HK$'000	2018 HK$'000
Segregated client accounts with SEOCH	**63,886**	68,757

(c) ***Segregated client accounts with authorised institutions ("AIs") as a result of its normal business transactions, which are not otherwise dealt within the financial information***

	2019 HK$'000	2018 HK$'000
Segregated client accounts with AIs	**3,862,662**	3,789,816

45. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of liabilities arising from financing activities

	HK$'000
As at 1 January 2019	7,423,912
Impact on initial application of HKFRS 16	143,190
Adjusted balance at 1 January 2019	7,567,102
Changes from financing cash flows:	
– Net drawdown of bank and other borrowings	2,428,867
– Increase in obligation under repurchase agreements	799,547
– Principal elements of lease payments	(69,671)
Acquisition – new lease	208
Interest expenses on lease liabilities	3,212
Foreign exchange adjustments	(220)
As at 31 December 2019	10,729,045

46. SUBSEQUENT EVENT

Profit distribution for 2019

On 25 March 2020, the Board of Directors proposed the 2019 final dividends of HK$0.09 per share, amounting to HK$246,095 thousand. The proposed profit distribution plan is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Impact of COVID-19

An outbreak of COVID-19 at the end of 2019 has spread to various countries and territories across the globe since early 2020. It caused upheaval in stock markets and disrupted business and economic activities around the world. However, the economic damage and the impact on GDP cannot be reasonably assessed at the time of this report. The Group will continue to pay close attention to the development of situation, evaluate and respond to its impact on the Group's financial position and operating results.

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