



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

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

# 2019

Interim Report



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# Financial Highlights

## Results

Revenue and other income  
(in million HK\$)



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



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

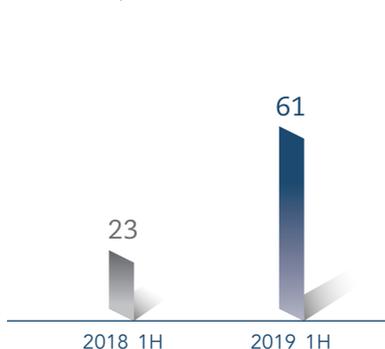


## Revenue and other income by segment

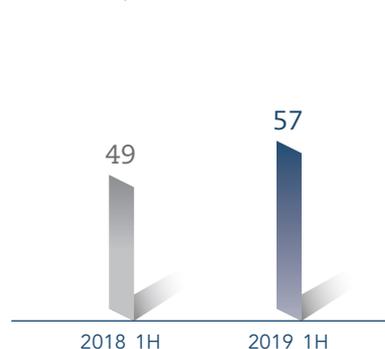
Brokerage  
(in million HK\$)



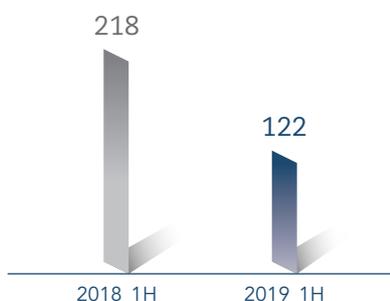
Corporate finance and underwriting  
(in million HK\$)



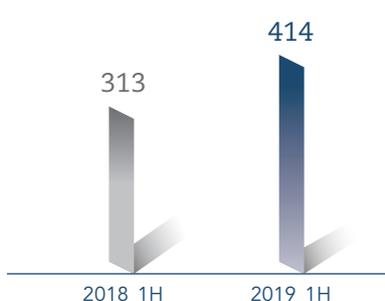
Asset management and advisory  
(in million HK\$)



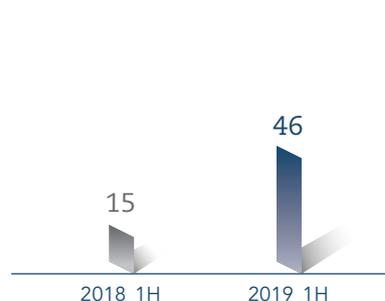
Margin financing  
(in million HK\$)



Investment and loans  
(in million HK\$)



Others  
(in million HK\$)



Financial Position

Shareholders' equity — attributable to Shareholders of the Company

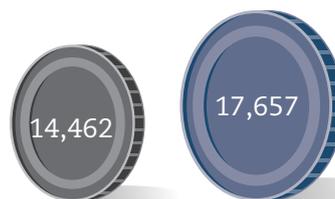
(in million HK\$)



At 31 December 2018      At 30 June 2019

Total assets

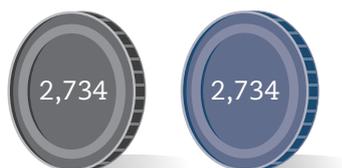
(in million HK\$)



At 31 December 2018      At 30 June 2019

Number of shares in issue

(in million shares)



At 31 December 2018      At 30 June 2019

NAV per share — attributable to Shareholders of the Company

(in HK\$)



At 31 December 2018      At 30 June 2019

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

TAN Yueheng (*Chairman*)  
LI Ying (*President*)  
CHENG Chuange (*Deputy Chief Executive Officer*)

### Non-executive Directors

WANG Yijun  
LIN Zhihong  
SHOU Fugang

### Independent Non-executive Directors

TSE Yung Hoi  
MA Ning  
LIN Zhijun

## BOARD COMMITTEES

### Executive Committee

TAN Yueheng (*Chairman*)  
LI Ying  
CHENG Chuange  
XI Xuanhua\*  
SU Fen\*

### Audit and Risk Management Committee

LIN Zhijun (*Chairman*)  
LIN Zhihong  
TSE Yung Hoi

### Remuneration Committee

TSE Yung Hoi (*Chairman*)  
SHOU Fugang  
MA Ning  
LIN Zhijun

### Nomination Committee

TAN Yueheng (*Chairman*)  
WANG Yijun  
TSE Yung Hoi  
MA Ning  
LIN Zhijun

## JOINT COMPANY SECRETARIES

YI Li  
KWONG Yin Ping, Yvonne

## AUTHORISED REPRESENTATIVES

CHENG Chuange  
KWONG Yin Ping, Yvonne

## REGISTERED OFFICE

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

## LEGAL ADVISER

As to Hong Kong laws  
Freshfields Bruckhaus Deringer

## AUDITOR

PricewaterhouseCoopers

## SHARE REGISTRAR

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

## PRINCIPAL BANKERS

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

## STOCK CODE

HKEX	3329
Reuters	3329.HK
Bloomberg	3329 HK

## COMPANY WEBSITE

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

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

# Management Discussion and Analysis

## MARKET REVIEW

In the first half of 2019, trade tensions escalated again, and global economy experienced a synchronised slowdown. US economic cycle indicators, such as corporate earnings and industrial production, were falling. German industry activity was sluggish, and Italy suffered a recession. In addition, Brexit and trade war posed mounting risks to European Union economy. Japan economy recovered moderately, but sales tax hike and soft external demand may curb its further expansion. Central banks turned dovish, spurred by flagging global growth. The Federal Reserve ended its rate hike cycle and signaled a new round of rate cuts, while the European Central Bank and Bank of Japan both suggested further monetary easing if necessary. Emerging markets also lowered interest rates amid expectations of a looser Federal Reserve policy.

China's economy grew moderately. For the first half of 2019, China's GDP grew 6.3% year on year, within the government's target range of 6.0%-6.5%. China strengthened the counter-cyclical adjustment via tax and fee cuts and monetary easing to help its economy bottom out. The quality of economic growth continued to improve. Investments in high-tech manufacturing saw strong growth and consumption played an increasing role in the economy. Despite the escalating Sino-US trade disputes, export and import figures were better than expected.

A-share internationalisation accelerated with its inclusion in the FTSE Russell's Global Equity Index Series, MSCI expansion and the launch of the Shanghai-London Stock Connect program. The Science and Technology Innovation Board set for innovation and financing was progressing smoothly, marking a bold step forward for capital market reforms. Cross-border capital flows remained stable. China's foreign exchange reserves rose and market expectations on renminbi exchange rate stayed at a reasonable level.

The Hong Kong stock market had declined after a strong run-up in the first half of 2019. The Hang Seng index hit 30,000-point level in April 2019, but subsequently dropped as trade tensions escalated again. The Hang Seng index closed at 28,543 by the end of June 2019, up by 10.4% from the end of last year. The momentum in Hong Kong stocks was weakening with a lower equity market turnover compared to the same period last year.

However, Hong Kong's primary market performed well. In the first half of 2019, there were a total of 84 new listings in Hong Kong, including the transfer of listing from GEM to Main Board, and the amount of funds raised increased by 39% to HK\$71.8 billion as compared to the corresponding period last year. Most of the newly-listed companies were in consumer and TMT industries. Benefited from the listing reform, healthcare became the primary sector for fund raising. The Shanghai Composite Index closed at 2,979 points by the end of June 2019, rising 19.4% from the end of last year. Northbound trading remained active, hitting a new record with daily turnover of RMB77.4 billion. The average daily turnover for the first half year increased by at least 2 times compared to that for the same period last year.

### BUSINESS REVIEW

As one of the earliest licensed securities firms with PRC background in Hong Kong, we are one of the largest securities firms specialising in securities brokerage and margin financing, corporate finance and underwriting, investment and loans, asset management and advisory businesses. We believe that one of our core competitive strengths is our ability to offer comprehensive and integrated financial services and products that fulfill various investment and wealth management needs of clients. During the Reporting Period, the Group's revenue and other income was HK\$775.2 million, representing an increase of 5.6% when compared with HK\$734.4 million for the same period last year. The Group's profit was HK\$254.3 million, representing an increase of 8.0% when compared with HK\$235.4 million for the same period last year.

#### Securities Brokerage and Margin Financing

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

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

During the Reporting Period, we continued to strengthen our groundwork via the launch of a two-factor authentication application, deployment of artificial intelligence system in our client services and continuous improvement in our online trading platform. Acknowledging the importance of digital transformation and Big Data, we have formulated and launched the 3-Year IT Application System and the Infrastructure Strategic Plan in order to maximise the use of our existing resources and create new business opportunities.

In addition to hardware improvement, we also built up wealth management teams to provide comprehensive advisory services to meet the investment needs of high-net-worth clients with diversified product coverage, including but not limited to exchange-traded products. Supplemented with the power of technology, we perseverely strived to improve client experience across the value chain, including client account opening, customisation of investment advice, research report distribution, middle and back office processes and completion of the deal. We were awarded the "Wealth Management Best Customer Satisfaction Award" initiated by Phoenix.com on 9 January 2019 as a recognition of achieving the transformation to wealth management.

## Management Discussion and Analysis

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

During the Reporting Period, our commission and fee income from the securities brokerage business was HK\$64.3 million, decreased by HK\$41.7 million or 39.3% as compared with the corresponding period of 2018.

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

	For the six months ended 30 June			
	2019		2018	
	HK\$'million	%	HK\$'million	%
Hong Kong stock	48.7	75.7	86.4	81.5
Non-Hong Kong stock	4.2	6.5	6.1	5.8
Bonds	4.1	6.4	5.1	4.8
Others	7.3	11.4	8.4	7.9
	<u>64.3</u>	<u>100.0</u>	<u>106.0</u>	<u>100.0</u>

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

In response to the credit risk caused by price surges of small stock and regulatory changes in margin financing business, we have adopted a systematic approach to deal with stock concentration and client concentration issues and the result was remarkable, although short-term negative impact is expected from margin financing business.

During the Reporting Period, the number of our margin client accounts continued to grow. The monthly average loan balance decreased. Interest income from margin loans for the six months ended 30 June 2019 was HK\$121.8 million, decreased by HK\$96.4 million or 44.2% as compared to the corresponding period in 2018.

## Management Discussion and Analysis

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

	30/6/2019	31/12/2018
Number of margin accounts	<b>8,106</b>	7,961
Balance of gross margin loans (HK\$'million)	<b>3,430.3</b>	4,009.0
Monthly average balance (HK\$'million)	<b>3,673.1</b>	5,950.6
Highest month end balance (HK\$'million)	<b>3,814.3</b>	6,640.8
Lowest month end balance (HK\$'million)	<b>3,430.3</b>	4,009.0
Margin value (HK\$'million) (Note 1)	<b>3,595.4</b>	3,871.0
Market value (HK\$'million) (Note 2)	<b>14,933.4</b>	17,349.0

Notes:

- 1 Margin value refers to the market value of the securities pledged as collateral for margin loans multiplied by a collateral discount ratio for each individual security.
- 2 Market value refers to the value of the securities pledged as collateral for margin loans at the real-time price of each individual security.

### Corporate Finance and Underwriting

We are dedicated to building a comprehensive and cross-border platform for corporate finance and underwriting business. To address various needs of our corporate clients at different stages, we provide advisory services ranging from IPO sponsorship, equity securities underwriting, debt securities underwriting, mergers and acquisitions, pre-IPO financing, and financial advisory.

In the first half of 2019, there were a total of 84 new listings in Hong Kong, including the transfer of listing from GEM to Main Board. The number of new listings has decreased by 22.22% as compared with the corresponding period in 2018. The aggregate amount of funds raised through IPOs was HK\$71.8 billion, increased by 39% as compared with the corresponding period in 2018. After the launch of new listing regime, emerging and innovative companies contributed significantly to the IPO market during the Reporting Period and the trend will continue for the second half of 2019.

Admitting that New Economy will play a dominant role in the fund-raising market, we have devoted more resources in building up execution teams specialising in TMT, healthcare and biotechnology industries in order to grasp the business opportunities of a new era. During the Reporting Period, we acted as a sponsor for three IPO projects, two of which as the sole sponsor and one as one of the joint sponsors. Furthermore, we acted as a global coordinator and/or book-runner for 11 IPO projects. In respect of debt capital market, we had completed 36 debt issuance projects, successfully assisted corporations in raising US\$14.32 billion in aggregate.

For the six months ended 30 June 2019, our commission and fee income from corporate finance and underwriting services was HK\$60.7 million, increased by HK\$37.9 million or 166.4% as compared to HK\$22.8 million in the corresponding period of 2018.

### Asset Management and Advisory

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

Our core value is to provide comprehensive investment solutions and the best services to individual investors and institutional clients. In addition to traditional investments, we also offer alternative investments to investors. We have built up a cross-border asset management platform through our presence in Hong Kong, Shanghai and Shenzhen to grasp the distinct source of investment growth in the Mainland. With a focus on investing in artificial intelligence, new materials, bio-pharmaceuticals and next-generation information technology, we also provide integrated financial services to investors, including but not limited to the sourcing of investment, project structure, financing and tax arrangement across the value chain. Under our Shenzhen asset management platform, we launched a private fund with a focus on cloud technology in early 2019. Before the official launch of the new Science and Technology Innovation Board or “the STAR Market” by the Shanghai Stock Exchange, our wholly-owned subsidiary in Shanghai engaging in asset management and BOCOM Guo Xin Asset Management Company Limited formed a partnership enterprise in the name of BOCOM Science and Technology Innovation Equity Investment Fund. As at 30 June 2019, the investments under this newly set up fund covered cloud technology, database and bio-pharmaceutical industries, which will be key support of the STAR Market.

Diversified products are the building blocks of our asset management business. As at 30 June 2019, the total amount of AUM was approximately HK\$26,350.9 million, representing an increase of approximately 6.2% from HK\$24,810.9 million as at 31 December 2018. For the six months ended 30 June 2019, asset management and advisory fee income was approximately HK\$57.2 million which comprised of management fee income of HK\$29.6 million and advisory fee income of HK\$27.6 million.

### Investment and Loans

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

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

## Management Discussion and Analysis

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

The fixed income market was resilient in the first half of 2019 and the trend will persist in the second half of 2019. We benefited from the active bond trading via resources allocation. For the six months ended 30 June 2019, interest income from loans and advances and receivables from reverse repurchase agreements was HK\$67.5 million, representing an increase of approximately 54.5% as compared to HK\$43.7 million for the corresponding period in 2018. Proprietary trading income was HK\$339.1 million, increased by HK\$84.2 million or 33.0% as compared to HK\$254.9 million for the corresponding period in 2018.

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

	30/6/2019		31/12/2018	
	HK\$'million	%	HK\$'million	%
Fixed income securities	<b>6,636.1</b>	<b>70.4</b>	3,699.5	57.0
Bonds	<b>4,316.9</b>	<b>45.8</b>	1,750.7	27.0
Preference shares	<b>2,263.8</b>	<b>24.0</b>	1,891.4	29.1
REIT(s)	<b>55.4</b>	<b>0.6</b>	57.4	0.9
Equity investments	<b>166.9</b>	<b>1.8</b>	159.2	2.4
Equity-linked loan	<b>438.8</b>	<b>4.6</b>	440.3	6.8
Funds	<b>2,190.0</b>	<b>23.2</b>	2,192.3	33.8

### Research

Our research team has deep and solid understanding of the global financial markets and major industries, as well as a track record in comprehensive analyses of sector- and company-specific fundamentals. The team has earned high reputation among institutional investors in Hong Kong, Mainland China and the overseas markets. As at 30 June 2019, our research team comprised of around 40 strategy, industry analysts and professional staff in Hong Kong, Beijing and Shanghai, covering about 140 companies listed in Hong Kong, Mainland China and New York across various sectors.

In the first half of 2019, our research team further enhanced its research capacity through a series of upgrade and optimisation projects, which reinforced its leading position in the industry. The key enhancement projects include: the improvement of the quantity and quality of in-depth reports, the enhancement of research reports' timeliness and accuracy, the optimisation of the internal talent training system, the strengthening of business support to other departments, the reinforcement of collaboration with the media in Hong Kong and Mainland China, thereby promoting the overall image of the Company.

## FINANCIAL REVIEW

### Financial performance

For the six months ended 30 June 2019, the Group's total revenue and other income was approximately HK\$775.2 million, representing an increase of approximately 5.6% over HK\$734.4 million for the corresponding period in 2018.

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

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	HK\$'million	%	HK\$'million	%
Brokerage	74.8	9.7	115.8	15.8
Corporate finance and underwriting	60.7	7.8	22.8	3.1
Asset management and advisory	57.4	7.4	49.0	6.7
Margin financing	121.8	15.7	218.2	29.7
Investment and loans	414.0	53.4	313.1	42.6
Others	46.5	6.0	15.5	2.1
<b>Total</b>	<b>775.2</b>	<b>100.0</b>	<b>734.4</b>	<b>100.0</b>

The Group's profit for the six months ended 30 June 2019 was approximately HK\$254.3 million, representing an increase of approximately 8.0% over HK\$235.4 million for the corresponding period in 2018.

### Operating expenses

Operating expenses and finance costs for the six months ended 30 June 2019 amounted to HK\$508.7 million (2018 1H: HK\$507.9 million), an analysis of which is listed below:

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	HK\$'million	%	HK\$'million	%
Commission and brokerage expenses	20.1	3.9	34.4	6.8
Finance costs	165.0	32.4	165.3	32.5
Staff costs	185.6	36.5	139.0	27.4
Depreciation	38.9	7.7	4.1	0.8
Other operating expenses	91.1	17.9	161.2	31.7
Change in impairment allowance	8.0	1.6	3.9	0.8
<b>Total</b>	<b>508.7</b>	<b>100.0</b>	<b>507.9</b>	<b>100.0</b>

## Management Discussion and Analysis

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

Staff costs increased by 33.5% as a result of investment in human resources.

Depreciation increased by 8.5 times due to the reclassification and the adjustments of operating lease arising from the adoption of HKFRS 16 Leases.

Other operating expenses decreased by 43.5% mainly due to the reclassification of operating lease charges and the decrease of fund related expenses.

Change in impairment allowance represented the movement of provision under the implementation of HKFRS 9 Financial Instruments.

### Liquidity, Financial Resources and Gearing Ratio

The Group's cash and bank balances as at 30 June 2019 increased by HK\$285.9 million to HK\$879.9 million (31 December 2018: HK\$594.0 million).

The Group's net current assets decreased by HK\$1,510.9 million to approximately HK\$7,840.4 million as at 30 June 2019 from HK\$9,351.3 million as at 31 December 2018. The current ratio, being the ratio of current assets to current liabilities, was approximately 2.7 times as at 30 June 2019 (31 December 2018: 6.4 times).

As at 30 June 2019, the Group had borrowings of HK\$8,336.7 million (31 December 2018: HK\$6,423.9 million) while the subordinated loans from the ultimate holding company amounted to HK\$1,000.0 million (31 December 2018: HK\$1,000.0 million).

As at 30 June 2019, the Group's gearing ratio was 145.2% (31 December 2018: 118.3%), as calculated by dividing total borrowings by total equity.

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

### Capital Structure

The Group finances its working capital requirements by cash generated from business operations and bank loans (including loans from BOCOM). Our capital structure consists of share capital and reserves.

### Principal Risks

The Group faces a number of principal risks and uncertainties that if not properly managed could create an exposure for the Group. Thorough risk assessment and mitigation help to ensure these risks are well managed and governed effectively. The Group focuses on addressing the following principal risks:

### ***Currency Risk***

The Group has certain transactions denominated in foreign currencies and is therefore exposed to exchange rate fluctuations. Our currency risk exposure mainly lies in RMB and USD at present. The exchange rate of HKD against USD is relatively stable under the current pegged rate system in Hong Kong.

### ***Interest Rate Risk***

Our interest rate risk relates primarily to margin loans to customers, loans and subordinated loans and investments in debt securities. The Group has set up asset portfolio management system and monitored risk exposure regularly to mitigate the interest rate risk by diversification of assets and quantifying market exposure in duration terms.

### ***Credit Risk***

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

### ***Liquidity Risk***

Our businesses rely on sufficient funds to pay due debts, perform payment obligations and satisfy the capital requirements. The Group has implemented internal measures to monitor the liquidity risk and the foreseeable funding requirements to ensure certain subsidiaries of the Company that are regulated under the SFO to continuously comply with the relevant rules and regulations.

### ***Operational Risk***

Our operation risk arises from direct or indirect financial loss resulting from incomplete or irregular internal processes, personnel mistakes, information technology system failures, or external events. The Group has implemented a range of internal control and other measures and plans to mitigate such risk.

### ***Market Risk***

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

## Material Acquisitions and Disposals

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



## Management Discussion and Analysis

### Significant Investments Held

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

### Charges on Group Assets

As at 30 June 2019, there was no charge on Group assets (31 December 2018: Nil).

### Capital Commitments

As at 30 June 2019, the Group had no significant capital commitment.

### Employees and Remuneration Policies

As at 30 June 2019, the Group had a total of 324 employees. Total staff costs amounted to approximately HK\$185.6 million for the six months ended 30 June 2019.

The Group continuously refines its remuneration and incentive policies to boost business development and ensure employees receive competitive remuneration packages. The remuneration of the Directors are determined with reference to their duties, responsibilities, experience and to the prevailing market conditions. Mandatory provident fund scheme and insurance packages have been provided to employees in accordance with local laws and regulations. We conduct performance evaluations of our employees annually to provide feedback on their performance.

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

### Contingent liabilities

As at 30 June 2019, the Group had certain contingent liabilities arising in the ordinary course of business. Please see Note 27 to the Condensed Consolidated Financial Statements of this interim report for details.

### Use of Proceeds

The net proceeds from the Listing in 2017 after deducting underwriting fees and commissions and expenses in connection with the Listing, were approximately HK\$1,879.2 million. As at 30 June 2019, the Company utilised approximately 94.7% of the net proceeds for the purposes as set out in the section headed "Future Plans and Use of Proceeds – Use of proceeds" in the Prospectus. The unutilised amount is expected to be utilised within 4 years.

## Management Discussion and Analysis

An analysis of the application/intended application and utilisation of the net proceeds from the Listing as at 30 June 2019 is set out below:

Application/Intended application	Net proceeds from the Listing (HK\$'million)	Utilised amount as at 31/12/2018 (HK\$'million)	Utilised amount during the Reporting Period (HK\$'million)	Utilised amount as at 30/6/2019 (HK\$'million)	Unutilised amount (HK\$'million)
1. Expand margin financing business	845.7	845.7	-	845.7	-
2. Expand asset management and advisory business	281.9	281.9	-	281.9	-
3. Expand investment and loans business	187.9	187.9	-	187.9	-
4. Develop IT infrastructure and internal control systems	187.9	59.2	29.3	88.5	99.4
5. Attract and retain talent as well as optimising human resources structure	187.9	158.0	29.9	187.9	-
6. Working capital and general corporate purposes	187.9	187.9	-	187.9	-
<b>Total</b>	<b>1,879.2</b>	<b>1,720.6</b>	<b>59.2</b>	<b>1,779.8</b>	<b>99.4</b>

### Outlook

Global economic growth will decelerate, and financial market volatility will increase amid escalating trade tensions and heightened geo-political uncertainties. Sino-US Trade disputes intensified again. The United States will impose more tariffs on China, while China pledges countermeasures. The trade negotiations are deadlocked. The renminbi exchange rate plunged beyond 7 per US dollar for the first time since the financial crisis in 2008, triggering an earthquake on global capital markets. A no-deal Brexit becomes more likely after the UK's new prime minister takes office. As risk aversion prevails, risk assets will be under pressure and gold will continue to perform well.

The global market will resort to stronger measures and move to loosen monetary policies to deal with rising risks and uncertainties. US economic growth is set to slow, and stocks will encounter resistance. The Federal Reserve has initiated a precautionary rate cut cycle, and is expected to cut rates three times in the second half of 2019. The European Central Bank is likely to relaunch another round of quantitative easing. Looser monetary policies in the major economies will give emerging markets more room to adjust their monetary policies.

China's economic cycle is reviving. In the context of weak external demand, China's economy has been transforming into one driven by domestic demand. In the second half of 2019, the counter-cyclical adjustment is expected to strengthen further to support infrastructure investment. Tightening property measures are expected to continue, but the rapid growth in property construction will stabilise real estate investment. Domestic consumption will be a stronger growth driver. The Federal Reserve cuts interest rate and creates room for China's monetary policy while it is unlikely to be more accommodative unless the on-going trade disputes with the US deteriorate much further and worsen the economy.



## Management Discussion and Analysis

The P/E of the Shanghai Composite index has fallen to the level seen during the 2008 financial crisis and in 2016 after the stock bubble in China burst. As such, the market has priced in the base case of the trade war. Earnings growth should continue to recover and help stocks bottom out. China will resort to stronger stimulus, should the external risks elevate.

Market risks have intensified in such a complicated external environment. The Group will continue to adhere to the strategy of “dealing changes with stability, making improvement with innovation”, and further strengthen the cooperation among the risk management team and other business departments for balancing the risks and returns.

In China’s economic transformation, the Group will seize a series of opportunities including structure adjustment, technology innovation and the Greater Bay Area. To reap reform dividend, the Group will innovate in developing financial products and expanding services on capital markets to enhance its competitiveness. The Group will take the path of high-quality development and pursue a balance between business quality and quantity. Meanwhile, we will optimise organisational structure, strengthen the coordinated development of the licensed and capital-based businesses, offer a range of products and services to cater for the wealth management and financing needs for our domestic and foreign clients.

# Corporate Governance and Other Information

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

As at 30 June 2019, the interests and short positions of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Listing Rules were as follows:

### Long Positions in Shares of the Company

Name of Director/Chief Executive	Capacity	Number of Shares held	Approximate percentage to the total number of issued Shares of the Company (%)
TAN Yueheng	Beneficial owner	2,000,000	0.07
XI Xuanhua	Beneficial owner	1,000,000	0.04

### Long Positions in shares of associated corporation – BOCOM

Name of Director	Capacity	Class of shares held in the associated corporation	Number of shares held	Approximate percentage to the total number of relevant class of issued shares of the associated corporation (%)	Approximate percentage to the total number of issued shares of the associated corporation (%)
TAN Yueheng	Beneficial owner	H shares	100,000	0.00	0.00
		A shares	120,000	0.00	0.00
LI Ying	Beneficial owner	H shares	173,000	0.00	0.00
CHENG Chuange	Beneficial owner	A shares	40,000	0.00	0.00
SHOU Fugang	Beneficial owner	H shares	20,000	0.00	0.00
		A shares	60,000	0.00	0.00

## Corporate Governance and Other Information

Save as disclosed above, as at 30 June 2019, none of the Directors or Chief Executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

For the six months ended 30 June 2019, none of the Company or any of its subsidiaries had signed any agreements to enable the Directors to acquire benefits by means of acquisition of shares or debt securities (including debentures) of the Company or any other body corporate and none of the Directors, his/her spouses or children under the age of 18 had any rights to subscribe for securities of the Company, or had exercised any such rights.

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

As at 30 June 2019, the interests and short positions of those persons (other than the Directors or Chief Executives of the Company) in the Shares and underlying Shares of the Company as required to be recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO or to the best of Directors' knowledge, were as follows:

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

Notes:

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



## Corporate Governance and Other Information

Save as disclosed above, as at 30 June 2019, the Company is not aware of any other persons, other than the Directors and Chief Executives of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had interests or short positions in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has adopted the Corporate Governance Code of the Listing Rules as its own code of corporate governance. For further details, please refer to the "Corporate Governance Report" section contained in the Company's 2018 annual report. During the six months ended 30 June 2019, save as disclosed below, the Company has complied with all the code provisions set out in the Corporate Governance Code.

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

### COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors confirmed that they complied with the Model Code throughout the six months ended 30 June 2019 in response to specific enquiries made by the Company.

## CHANGE IN INFORMATION OF DIRECTORS AND CHIEF EXECUTIVES

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

Mr. CHENG Chuange, an Executive Director and Deputy Chief Executive Officer, was appointed as the vice chairman of the Chinese Securities Association of Hong Kong with effect from 27 June 2019.

Ms. LIN Zhihong, a Non-executive Director, ceased to be the general manager of the financial budget department (data and information management center) of BOCOM, with effect from 22 April 2019; and was appointed as the general manager of the financial service center (business department) of BOCOM, with effect from 17 May 2019.

Mr. SHOU Fugang, a Non-executive Director, ceased to be the chairman and was appointed as the executive director and chief executive officer of BOCOM Insurance Company Limited, with effect from 8 August 2019.

Mr. SU Fen, a Deputy Chief Executive Officer, was appointed as director of Shenzhen Bo Qiang Investment Consulting Limited, an indirect wholly-owned subsidiary of the Company, with effect from 13 June 2019.

## REVIEW OF INTERIM RESULTS

The Audit and Risk Management Committee has reviewed with management and the Company's auditor, PricewaterhouseCoopers, the accounting principles and practices adopted by the Group and discussed the financial reporting matters including the review of the Company's Interim Report for the six months ended 30 June 2019.

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

## INTERIM DIVIDEND

No dividend was paid or declared by the Company for the six months ended 30 June 2019 (2018 1H: Nil).

# Report on Review of Interim Financial Information

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

## INTRODUCTION

We have reviewed the interim financial information set out on pages 22 to 64, which comprises the condensed consolidated statement of financial position of BOCOM International Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

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

## CONCLUSION

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

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 26 August 2019

# Condensed Consolidated Income Statement

	Notes	Six months ended	
		30/6/2019 (Unaudited) HK\$'000	30/6/2018 (Unaudited) HK\$'000
Revenue	7	<b>710,630</b>	694,554
Other income	7	<b>64,593</b>	39,799
<b>Revenue and other income</b>		<b>775,223</b>	734,353
Commission and brokerage expenses		<b>(20,074)</b>	(34,383)
Finance costs	9	<b>(164,997)</b>	(165,276)
Staff costs	9	<b>(185,581)</b>	(138,967)
Depreciation	9	<b>(38,928)</b>	(4,110)
Other operating expenses		<b>(91,087)</b>	(161,270)
Change in impairment allowance	8	<b>(7,993)</b>	(3,909)
Total expenses		<b>(508,660)</b>	(507,915)
Operating profit		<b>266,563</b>	226,438
Share of results of associates	14	<b>17,682</b>	(448)
Share of results of joint ventures		<b>23</b>	22
Gain on disposal of an associate	14	<b>–</b>	15,380
<b>Profit before taxation</b>	9	<b>284,268</b>	241,392
Income tax expense	10	<b>(30,011)</b>	(5,978)
<b>Profit for the period</b>		<b>254,257</b>	235,414
<b>Attributable to:</b>			
Shareholders of the Company		<b>253,891</b>	231,863
Non-controlling interests		<b>366</b>	3,551
		<b>254,257</b>	235,414
<b>Earnings per share attributable to shareholders of the Company for the period</b>			
— Basic/Diluted (in HKD per share)	12	<b>0.09</b>	0.08

## Condensed Consolidated Statement of Comprehensive Income

	Six months ended	
	30/6/2019 (Unaudited) HK\$'000	30/6/2018 (Unaudited) HK\$'000
<b>Profit for the period</b>	<b>254,257</b>	235,414
<b>Other comprehensive income/(loss)</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Changes in fair value of debt investments at fair value through other comprehensive income	<b>72,523</b>	(88,807)
Amounts reclassified to profit or loss upon disposal of debt investments at fair value through other comprehensive income	–	1,246
	<b>72,523</b>	(87,561)
Exchange differences on translation of foreign operations	<b>(6,056)</b>	–
	<b>66,467</b>	(87,561)
<i>Items that will not be reclassified subsequently to profit or loss</i>		
Changes in fair value of equity investments at fair value through other comprehensive income	<b>25,276</b>	(39,908)
<b>Other comprehensive income/(loss), net of tax</b>	<b>91,743</b>	(127,469)
<b>Total comprehensive income</b>	<b>346,000</b>	107,945
<b>Attributable to:</b>		
Shareholders of the Company	<b>345,918</b>	104,394
Non-controlling interests	<b>82</b>	3,551
	<b>346,000</b>	107,945

## Condensed Consolidated Statement of Financial Position

		30/6/2019 (Unaudited) HK\$'000	31/12/2018 (Audited) HK\$'000
	<i>Notes</i>		
<b>Assets</b>			
<b>Non-current Assets</b>			
Property and equipment		30,886	32,129
Right-of-use assets		106,539	–
Intangible assets		3,196	3,196
Interest in associates	14	298,019	212,553
Interest in joint ventures		2,934	2,915
Other assets		26,537	22,867
Financial assets at fair value through other comprehensive income	13	3,817,526	2,503,218
Loans and advances	15	349,939	156,136
Receivable from reverse repurchase agreements	16	442,620	437,511
Deferred tax assets		23,077	18,685
<b>Total non-current assets</b>		<b>5,101,273</b>	<b>3,389,210</b>
<b>Current Assets</b>			
Loans and advances	15	315,906	1,269,215
Tax recoverable		10,987	10,987
Accounts receivable	17	886,799	641,190
Other receivables and prepayments	18	1,336,607	300,999
Margin loans to customers	19	3,341,851	3,918,371
Receivable from reverse repurchase agreements	16	237,047	187,670
Amounts due from related parties		2,670	3,242
Amount due from a fellow subsidiary		28	–
Financial assets at fair value through profit or loss	13	5,543,369	4,141,644
Derivative financial assets	13	909	5,306
Cash and bank balances	20	879,946	594,005
<b>Total current assets</b>		<b>12,556,119</b>	<b>11,072,629</b>
<b>Total assets</b>		<b>17,657,392</b>	<b>14,461,839</b>
<b>Equity and liabilities</b>			
<b>Equity attributable to shareholders of the Company</b>			
Share capital	24	3,942,216	3,942,216
Retained earnings		2,550,760	2,520,038
Revaluation reserve		(72,909)	(170,708)
Foreign currency translation reserve		(23,244)	(17,472)
<b>Total equity attributable to shareholders of the Company</b>		<b>6,396,823</b>	<b>6,274,074</b>
Non-controlling interests		33,221	134
<b>Total equity</b>		<b>6,430,044</b>	<b>6,274,208</b>

## Condensed Consolidated Statement of Financial Position (Continued)

	<i>Notes</i>	30/6/2019 (Unaudited) HK\$'000	31/12/2018 (Audited) HK\$'000
<b>Liabilities</b>			
<b>Non-current Liabilities</b>			
Borrowings	21	4,974,940	4,988,200
Subordinated loans from the ultimate holding company	21	1,000,000	1,000,000
Obligation under repurchase agreements	21	487,864	478,146
Lease liabilities		48,830	–
<b>Total non-current liabilities</b>		<b>6,511,634</b>	<b>6,466,346</b>
<b>Current Liabilities</b>			
Borrowings	21	2,227,762	763,630
Obligation under repurchase agreements	21	646,107	193,936
Tax payable		32,438	36,026
Provision for staff costs		59,209	78,516
Other payables and accrued expenses		714,655	94,367
Accounts payable	22	694,802	496,605
Dividend payable		218,751	–
Contract liabilities	23	25,360	18,128
Lease liabilities		61,499	–
Amount due to the ultimate holding company		3,265	3,745
Amount due to a fellow subsidiary		–	83
Financial liabilities at fair value through profit or loss	13	31,117	30,960
Derivative financial liabilities	13	749	5,289
<b>Total current liabilities</b>		<b>4,715,714</b>	<b>1,721,285</b>
<b>Total liabilities</b>		<b>11,227,348</b>	<b>8,187,631</b>
<b>Total equity and liabilities</b>		<b>17,657,392</b>	<b>14,461,839</b>
<b>Net current assets</b>		<b>7,840,405</b>	<b>9,351,344</b>
<b>Total assets less current liabilities</b>		<b>12,941,678</b>	<b>12,740,554</b>

# Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company				Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Retained earnings HK\$'000	Revaluation reserve HK\$'000	Foreign currency translation reserve HK\$'000			
At 31 December 2018 (Audited)	<b>3,942,216</b>	<b>2,520,038</b>	<b>(170,708)</b>	<b>(17,472)</b>	<b>6,274,074</b>	<b>134</b>	<b>6,274,208</b>
Impact on initial application of HKFRS 16	-	(4,418)	-	-	(4,418)	-	(4,418)
Adjusted balance at 1 January 2019	<b>3,942,216</b>	<b>2,515,620</b>	<b>(170,708)</b>	<b>(17,472)</b>	<b>6,269,656</b>	<b>134</b>	<b>6,269,790</b>
Profit for the period	-	253,891	-	-	253,891	366	254,257
Other comprehensive income for the period	-	-	97,799	(5,772)	92,027	(284)	91,743
Total comprehensive income for the period	-	253,891	97,799	(5,772)	345,918	82	346,000
Capital contribution by non-controlling interests	-	-	-	-	-	33,138	33,138
Final Dividend for 2018 (Note 11)	-	(218,751)	-	-	(218,751)	-	(218,751)
Dividends paid by a subsidiary	-	-	-	-	-	(133)	(133)
At 30 June 2019 (Unaudited)	<b>3,942,216</b>	<b>2,550,760</b>	<b>(72,909)</b>	<b>(23,244)</b>	<b>6,396,823</b>	<b>33,221</b>	<b>6,430,044</b>
At 31 December 2017 (Audited)	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	<u>3,942,216</u>	<u>2,337,199</u>	<u>3,239</u>	<u>-</u>	<u>6,282,654</u>	<u>4,077</u>	<u>6,286,731</u>
Profit for the period	-	231,863	-	-	231,863	3,551	235,414
Other comprehensive income for the period	-	-	(127,469)	-	(127,469)	-	(127,469)
Total comprehensive income for the period	-	231,863	(127,469)	-	104,394	3,551	107,945
Final Dividend for 2017 (Note 11)	-	(218,751)	-	-	(218,751)	-	(218,751)
At 30 June 2018 (Unaudited)	<u>3,942,216</u>	<u>2,350,311</u>	<u>(124,230)</u>	<u>-</u>	<u>6,168,297</u>	<u>7,628</u>	<u>6,175,925</u>

# Condensed Consolidated Statement of Cash Flows

	Six months ended	
	30/6/2019 (Unaudited) HK\$'000	30/6/2018 (Unaudited) HK\$'000
<b>Operating activities</b>		
Profit before taxation	284,268	241,392
Adjustments for:		
Dividend income	(33,214)	(38,577)
Interest income from loans or clients	(189,282)	(261,845)
Interest income from financial assets	(132,369)	(103,137)
Other interest income	(23,853)	(13,752)
Finance costs	164,997	165,276
Depreciation	38,928	4,110
Loss on disposal of property and equipment	–	792
Change in impairment allowance	7,993	3,909
Net unrealised gain on financial assets	(121,442)	(125,616)
Net realised loss on debt investments at fair value through other comprehensive income	–	1,246
Foreign exchange (gain)/loss	(21,945)	12,381
Share of results of associates	(17,682)	448
Share of results of joint ventures	(23)	(22)
Gain on disposal of an associate	–	(15,380)
<b>Operating cash flows before movements in working capital</b>	<b>(43,624)</b>	<b>(128,775)</b>
Increase in other assets	(3,670)	(18,119)
Increase in financial assets at fair value through profit or loss	(1,280,283)	(921,999)
Increase/(decrease) in financial liabilities at fair value through profit or loss	157	(3,609)
Decrease in derivative financial assets	4,397	811
Decrease in derivative financial liabilities	(4,540)	(783)
Increase in accounts receivable	(245,645)	(65,903)
Decrease in margin loans to customers	578,708	267,850
Decrease in loans and advances	760,808	241,644
Increase in receivable from reverse repurchase agreements	(54,474)	–
Decrease in amounts due from related parties	572	878
Increase in amount due from a fellow subsidiary	(28)	(39)
Increase in other receivables and prepayments	(1,015,284)	(773)
Increase in accounts payable	198,197	67,695
(Decrease)/increase in amount due to the ultimate holding company	(480)	66
Decrease in amount due to a fellow subsidiary	(83)	–
Decrease in provision for staff costs	(19,307)	(46,417)
Increase in other payables and accrued expenses	608,233	38,551
Decrease in deferred revenue	–	(4,414)
Increase in contract liabilities	7,232	–
<b>Net cash used in operations</b>	<b>(509,114)</b>	<b>(573,336)</b>

## Condensed Consolidated Statement of Cash Flows (Continued)

	Six months ended	
	30/6/2019 (Unaudited) HK\$'000	30/6/2018 (Unaudited) HK\$'000
Income tax paid	(38,080)	–
Interest received from loans or clients	190,106	250,219
Other interest income received	24,853	13,603
Interest expenses paid	(150,621)	(173,882)
<b>Net cash used in operating activities</b>	<b>(482,856)</b>	<b>(483,396)</b>
<b>Investing activities</b>		
Dividend received	33,214	38,577
Interest income received	108,639	39,001
Purchase of property and equipment	(4,210)	(5,666)
Purchase of associates	(70,080)	(213,816)
Proceeds on disposal of an associate	–	111,671
Distribution from associates	–	7,091
Purchase of financial assets at fair value through other comprehensive income	(1,453,199)	(282,639)
Proceeds on disposal of financial assets at fair value through other comprehensive income	215,417	722,512
<b>Net cash (used in)/generated from investing activities</b>	<b>(1,170,219)</b>	<b>416,731</b>
<b>Financing activities</b>		
Net drawdown of bank loans and other borrowings	1,912,761	335,285
Capital contribution by non-controlling interests	33,138	–
Dividends from a subsidiary paid to non-controlling interests	(133)	–
Principal elements of lease payments	(35,093)	–
<b>Net cash generated from financing activities</b>	<b>1,910,673</b>	<b>335,285</b>
<b>Net increase in cash and cash equivalents</b>	<b>257,598</b>	<b>268,620</b>
<b>Cash and cash equivalents at 1 January</b>	<b>589,348</b>	<b>1,245,628</b>
Effect of exchange rate changes on cash and cash equivalents	28,343	(21,267)
<b>Cash and cash equivalents at 30 June</b>	<b>875,289</b>	<b>1,492,981</b>

# Notes to the Condensed Consolidated Financial Statements

## 1. GENERAL INFORMATION

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

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

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

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

The financial information relating to the year ended 31 December 2018, that is included in the condensed consolidated interim report for the six months ended 30 June 2019 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 2. BASIS OF PREPARATION

This condensed consolidated interim financial statements for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34, 'Interim financial reporting' and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with HKFRSs.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of HKFRS 16 Leases.

The Hong Kong Institute of Certified Public Accountants has issued a new HKFRS, HKFRS 16 Leases, and a number of amendments to HKFRSs that are first effective for the current accounting reporting period of the Group. The Group had to change its accounting policies and make retrospective adjustments as a result of adopting HKFRS 16.

The impact of the adoption is disclosed in Note 4 below. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 4. CHANGES IN ACCOUNTING POLICIES

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.

## Notes to the Condensed Consolidated Financial Statements (Continued)

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

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.

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

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 4. CHANGES IN ACCOUNTING POLICIES (continued)

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

	As at	
	30/6/2019 HK\$'000	1/1/2019 HK\$'000
Properties	<b>106,450</b>	139,706
Car parks	<b>89</b>	163
Total right-of-use assets	<b><u>106,539</u></b>	<u>139,869</u>

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

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

The net impact on retained earnings on 1 January 2019 was a decrease of HK\$4,418,000.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018, with the exception of changes in estimates that are required in determining the provision for income taxes, impairment losses and disclosure of exceptional items.

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 6. SEGMENT INFORMATION

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

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

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 6. SEGMENT INFORMATION (continued)

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

	Six months ended 30 June 2019 (Unaudited)							Total HK\$'000
	Brokerage HK\$'000	Corporate finance and underwriting HK\$'000	Asset management and advisory HK\$'000	Margin financing HK\$'000	Investment and loans HK\$'000	Others HK\$'000	Elimination HK\$'000	
<b>Total revenue</b>								
Revenue								
Commission and fee income								
— External	64,324	60,707	57,243	-	-	-	-	182,274
— Internal	203	-	1,864	-	-	-	(2,067)	-
Interest income								
— External	-	-	-	121,775	67,507	-	-	189,282
— Internal	-	-	-	-	26,072	-	(26,072)	-
Proprietary trading income								
— External	-	-	-	-	339,074	-	-	339,074
— Internal	-	-	-	-	-	-	-	-
Other income	10,427	-	160	-	7,473	46,533	-	64,593
	<u>74,954</u>	<u>60,707</u>	<u>59,267</u>	<u>121,775</u>	<u>440,126</u>	<u>46,533</u>	<u>(28,139)</u>	<u>775,223</u>
Total expenses	(95,634)	(76,156)	(58,434)	(67,761)	(238,814)	-	28,139	(508,660)
Share of results of associates	-	-	-	-	17,682	-	-	17,682
Share of results of joint ventures	-	-	-	-	23	-	-	23
<b>(Loss)/profit before taxation</b>	<u>(20,680)</u>	<u>(15,449)</u>	<u>833</u>	<u>54,014</u>	<u>219,017</u>	<u>46,533</u>	<u>-</u>	<u>284,268</u>
<b>Other disclosures</b>								
Depreciation	(15,514)	(2,835)	(5,299)	(5,879)	(9,401)	-	-	(38,928)
Change in impairment allowance	-	(7)	-	2,188	(10,174)	-	-	(7,993)
Finance costs	-	-	(155)	(39,364)	(151,550)	-	26,072	(164,997)

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 6. SEGMENT INFORMATION (continued)

	Six months ended 30 June 2018 (Unaudited)							Total HK\$'000
	Brokerage HK\$'000	Corporate finance and underwriting HK\$'000	Asset management and advisory HK\$'000	Margin financing HK\$'000	Investment and loans HK\$'000	Others HK\$'000	Elimination HK\$'000	
<b>Total revenue</b>								
Revenue								
Commission and fee income								
— External	105,963	22,784	49,056	-	-	-	-	177,803
— Internal	-	-	3,638	-	-	-	(3,638)	-
Interest income								
— External	-	-	-	218,161	43,684	-	-	261,845
— Internal	-	-	-	-	13,128	-	(13,128)	-
Proprietary trading income								
— External	-	-	-	-	254,906	-	-	254,906
— Internal	-	-	-	-	-	-	-	-
Other income	9,795	-	3	-	14,511	15,490	-	39,799
	<u>115,758</u>	<u>22,784</u>	<u>52,697</u>	<u>218,161</u>	<u>326,229</u>	<u>15,490</u>	<u>(16,766)</u>	<u>734,353</u>
Total expenses	(108,728)	(74,021)	(98,118)	(104,424)	(139,390)	-	16,766	(507,915)
Share of results of associates	-	-	-	-	(448)	-	-	(448)
Share of results of joint ventures	-	-	-	-	22	-	-	22
Gain on disposal of an associate	-	-	-	-	15,380	-	-	15,380
<b>Profit/(loss) before taxation</b>	<u>7,030</u>	<u>(51,237)</u>	<u>(45,421)</u>	<u>113,737</u>	<u>201,793</u>	<u>15,490</u>	<u>-</u>	<u>241,392</u>
<b>Other disclosures</b>								
Depreciation	(917)	(55)	(699)	(2,407)	(32)	-	-	(4,110)
Change in impairment allowance	-	(3,749)	-	(4,310)	4,150	-	-	(3,909)
Finance costs	-	-	-	(51,227)	(127,177)	-	13,128	(165,276)

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
Revenue from external customer by location of operations:		
— Hong Kong	<b>676,158</b>	687,423
— Mainland China	<b>34,472</b>	7,131
	<u><b>710,630</b></u>	<u>694,554</u>

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 7. REVENUE AND OTHER INCOME

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
<b>REVENUE</b>		
COMMISSION AND FEE INCOME		
Brokerage commission	64,324	105,963
Corporate finance and underwriting fee	60,707	22,784
Asset management and advisory income	57,243	49,056
	<u>182,274</u>	<u>177,803</u>
INTEREST INCOME		
Interest income from margin financing	121,775	218,161
Interest income from loans and advances	46,742	43,684
Interest income from receivable from reverse repurchase agreements	20,765	–
	<u>189,282</u>	<u>261,845</u>
PROPRIETARY TRADING INCOME		
Unrealised gain on financial assets	121,442	125,616
Realised gain/(loss) on financial assets at fair value through profit or loss	54,115	(13,855)
Realised loss on debt investments at fair value through other comprehensive income	–	(1,246)
Realised gain on derivative financial assets	258	190
Fair value changes from financial liabilities at fair value through profit or loss	(2,324)	2,487
Dividend income from		
— Financial assets at fair value through profit or loss	22,526	36,207
— Financial assets at fair value through other comprehensive income	10,688	2,370
Interest income from		
— Financial assets at fair value through profit or loss	67,689	34,719
— Financial assets at fair value through other comprehensive income	64,680	68,418
	<u>339,074</u>	<u>254,906</u>
	<u>710,630</u>	<u>694,554</u>

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 7. REVENUE AND OTHER INCOME (continued)

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
<b>OTHER INCOME</b>		
Handling fees	10,373	9,798
Other interest income	23,853	13,752
Exchange gains	21,945	–
Others	8,422	16,249
	<b>64,593</b>	<b>39,799</b>

## 8. CHANGE IN IMPAIRMENT ALLOWANCE

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
<b>Change in impairment allowance on:</b>		
Receivable from reverse repurchase agreements	(12)	–
Accounts receivable	36	3,730
Margin loans to customers	(2,188)	4,310
Loans and advances	(1,303)	(3,028)
Debt investments carried at FVOCI	10,976	(1,055)
Other receivables	484	(47)
Amounts due from related parties	–	(1)
	<b>7,993</b>	<b>3,909</b>

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 9. PROFIT BEFORE TAXATION

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
Profit before taxation has been arrived at after charging:		
Finance costs:		
— Interest expenses on subordinated loans from the ultimate holding company	14,539	12,649
— Interest expenses on bank loans from the ultimate holding company	12,930	33,021
— Interest expenses on bank loans and overdraft from other financial institutions	102,847	94,095
— Interest expenses on a total return swap arrangement with external third parties	—	25,487
— Interest expenses on obligation under repurchase agreements	21,492	—
— Interest expenses on lease liabilities	2,145	—
— Others	116	24
	<b>154,069</b>	165,276
— Other borrowing costs to the ultimate holding company	744	—
— Other borrowing costs to other financial institutions	10,184	—
	<b>164,997</b>	165,276
Depreciation	38,928	4,110
Loss on disposal of property and equipment	—	792
Operating lease charges	1,390	29,392
Staff costs	185,581	138,967
Guarantee fee (Note 27)	—	33,793

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 10. INCOME TAX EXPENSE

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
Current tax:		
Hong Kong Profits Tax	<b>29,017</b>	11,058
PRC Enterprise Income Tax	<b>5,204</b>	117
Under provision in prior periods	<b>298</b>	–
Total current tax	<b>34,519</b>	11,175
Deferred tax:		
Reversal from temporary difference	<b>(4,508)</b>	(5,197)
Income tax expense recognised in profit or loss	<b>30,011</b>	5,978

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

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the current and prior period. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the People's Republic of China's entities is 25%.

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 11. DIVIDENDS

Dividends approved during the interim period

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
Final dividend for previous financial year declared and approved of HK\$0.08 per ordinary share (2018: HK\$0.08 per ordinary share)	<b>218,751</b>	218,751

Dividends attributable to the interim period

No dividend was paid or declared by the Company for the six months ended 30 June 2019 (six months ended 30 June 2018: Nil).

## 12. EARNINGS PER SHARE

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

	Six months ended	
	30/6/2019 (Unaudited)	30/6/2018 (Unaudited)
Profit attributable to shareholders of the Company (HK\$'000)	<b>253,891</b>	231,863
Weighted average number of ordinary shares in issue (in '000 shares)	<b>2,734,392</b>	2,734,392
Earnings per share (in HKD per share)	<b>0.09</b>	0.08

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 13. FINANCIAL ASSETS AND LIABILITIES

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

#### Financial assets at fair value through other comprehensive income

	At 30 June 2019 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Designated at fair value through other comprehensive income upon initial recognition</b>				
Equity securities	2,451	–	–	2,451
Preference shares	1,154,817	–	–	1,154,817
Unlisted equity	–	–	64,551	64,551
	<u>1,157,268</u>	<u>–</u>	<u>64,551</u>	<u>1,221,819</u>
<b>Mandatorily measured at fair value through other comprehensive income</b>				
Debt investments	2,595,707	–	–	2,595,707
	<u>3,752,975</u>	<u>–</u>	<u>64,551</u>	<u>3,817,526</u>

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 13. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial assets at fair value through profit or loss

	At 30 June 2019 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Designated at fair value through profit or loss upon initial recognition</b>				
Equity securities	77,985	-	-	77,985
Debt investments	3,979	-	-	3,979
Preference shares	-	-	1,109,009	1,109,009
Unlisted equity	-	-	148,086	148,086
	<u>81,964</u>	<u>-</u>	<u>1,257,095</u>	<u>1,339,059</u>
<b>Mandatorily measured at fair value through profit or loss</b>				
Equity securities*	120,625	-	-	120,625
Debt investments	1,717,145	-	-	1,717,145
Club debenture	-	-	1,988	1,988
Funds	33,056	-	-	33,056
Unlisted funds	-	-	1,830,938	1,830,938
Equity-linked loan	-	-	438,802	438,802
Structured deposit	-	-	61,756	61,756
	<u>1,870,826</u>	<u>-</u>	<u>2,333,484</u>	<u>4,204,310</u>
	<u>1,952,790</u>	<u>-</u>	<u>3,590,579</u>	<u>5,543,369</u>

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 13. FINANCIAL ASSETS AND LIABILITIES (continued)

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

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

## Derivative financial assets

	At 30 June 2019 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Derivative financial assets	<u>909</u>	<u>–</u>	<u>–</u>	<u>909</u>

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 13. FINANCIAL ASSETS AND LIABILITIES (continued)

Financial liabilities at fair value through profit or loss

	At 30 June 2019 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
<b>Designated at fair value through profit or loss upon initial recognition</b>				
Financial liabilities to the investors of the funds consolidated	(11,632)	–	–	(11,632)
Structured note payable	–	–	(19,485)	(19,485)
	<u>(11,632)</u>	<u>–</u>	<u>(19,485)</u>	<u>(31,117)</u>

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

## Derivative financial liabilities

	At 30 June 2019 (Unaudited)			
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Derivative financial liabilities	–	(749)	–	(749)

	At 31 December 2018 (Audited)			
	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 28.

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 14. INTEREST IN ASSOCIATES

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Unlisted investment at the beginning of the period/year	<b>213,401</b>	86,769
Accumulated profit after acquisition	<b>152</b>	16,945
Addition for the period/year	<b>70,080</b>	213,400
Disposal during the period/year	–	(96,291)
Share of profit for the period/year	<b>17,682</b>	(179)
Distribution for the period/year	–	(7,091)
Exchange difference arising from translation of foreign operations	<b>(3,296)</b>	(1,000)
Interest in associates	<b><u>298,019</u></b>	<u>212,553</u>

On 9 March 2018, the Group invested in BIAM Leveraged Credit Fund SP for a consideration of US\$25,000 thousand and has significant influence over the fund. Therefore, it is accounted for as an associate.

On 9 April 2018, the Group disposed of all its interest in an associate, ChinaStar Limited for International Economic & Technical Cooperation with a realised gain of HK\$15,380 thousand.

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

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 15. LOANS AND ADVANCES

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Gross loans and advances	<b>937,774</b>	1,698,583
Less: impairment allowance	<b>(271,929)</b>	(273,232)
	<b><u>665,845</u></b>	<u>1,425,351</u>
Net loans and advances		
Non-current portion	<b>349,939</b>	156,136
Current portion	<b>315,906</b>	1,269,215
	<b><u>665,845</u></b>	<u>1,425,351</u>

There was no past due but not impaired loans and advances as at 30 June 2019 and 31 December 2018.

## 16. RECEIVABLE FROM REVERSE REPURCHASE AGREEMENTS

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Gross receivable from reverse repurchase agreements	<b>679,688</b>	625,214
Less: impairment allowance	<b>(21)</b>	(33)
	<b><u>679,667</u></b>	<u>625,181</u>
Net receivable from reverse repurchase agreements		
Non-current portion	<b>442,620</b>	437,511
Current portion	<b>237,047</b>	187,670
	<b><u>679,667</u></b>	<u>625,181</u>

As at 30 June 2019, the fair value of the collateral allowed for repledging for the outstanding receivable was HK\$1,230,742 thousand (31 December 2018: HK\$1,052,775 thousand).

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 17. ACCOUNTS RECEIVABLE

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Corporate finance and underwriting business	<b>34,303</b>	16,819
Dealing in securities and futures business		
— Clients	<b>513,623</b>	386,917
— Brokers	<b>117,019</b>	126,584
— Clearing house	<b>223,595</b>	112,575
	<b>854,237</b>	626,076
Less: impairment allowance	<b>(1,741)</b>	(1,705)
	<b>886,799</b>	641,190

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

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Neither past due nor credit-impaired	<b>875,742</b>	640,610
Less than 31 days past due	<b>4,003</b>	122
31–60 days past due	<b>141</b>	66
61–90 days past due	<b>117</b>	5
Over 90 days past due	<b>8,537</b>	2,092
	<b>12,798</b>	2,285
Less: impairment allowance	<b>(1,741)</b>	(1,705)
	<b>886,799</b>	641,190

Client receivables from securities dealing are receivable on the settlement dates of their respective transactions, normally two or three business days after the respective trade dates.

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 17. ACCOUNTS RECEIVABLE (continued)

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.

## 18. OTHER RECEIVABLES AND PREPAYMENTS

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Other receivables	<b>1,274,197</b>	235,237
Less: impairment allowance	<b>(742)</b>	(258)
	<b>1,273,455</b>	234,979
Prepayments	<b>63,152</b>	66,020
	<b><u>1,336,607</u></b>	<b><u>300,999</u></b>

## 19. MARGIN LOANS TO CUSTOMERS

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Gross margin loans to customers	<b>3,430,334</b>	4,009,042
Less: impairment allowance	<b>(88,483)</b>	(90,671)
	<b><u>3,341,851</u></b>	<b><u>3,918,371</u></b>

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 20. CASH AND BANK BALANCES

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Current and savings accounts	<b>875,289</b>	404,390
Time deposits with original maturity of less than three months	<u>—</u>	<u>184,958</u>
Cash and cash equivalents	<b>875,289</b>	589,348
Time deposits with original maturity of more than three months	<b>1,667</b>	1,667
Restricted cash	<b>2,990</b>	2,990
	<b><u>879,946</u></b>	<b><u>594,005</u></b>

## 21. BORROWINGS

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Bank loans and other borrowings		
Non-current — ultimate holding company (Note 25)	<b>450,000</b>	450,000
Non-current — authorised institutions	<b>4,524,940</b>	4,538,200
	<b><u>4,974,940</u></b>	<u>4,988,200</u>
Current — ultimate holding company (Note 25)	<b>100,000</b>	400,000
Current — authorised institutions	<b>2,127,762</b>	363,630
	<b><u>2,227,762</u></b>	<u>763,630</u>
Obligation under repurchase agreements		
Non-current	<b>487,864</b>	478,146
Current	<b>646,107</b>	193,936
	<b><u>1,133,971</u></b>	<u>672,082</u>
Subordinated loans (Note 25)		
Non-current	<b>1,000,000</b>	1,000,000
Total	<b><u>9,336,673</u></b>	<b><u>7,423,912</u></b>

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 21. BORROWINGS (continued)

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

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Bank and other borrowings		
Within 1 year	<b>2,873,869</b>	957,566
Between 2 and 5 years	<b>5,462,804</b>	5,466,346
	<b>8,336,673</b>	6,423,912
Undated	<b>1,000,000</b>	1,000,000
	<b>9,336,673</b>	7,423,912

## 22. ACCOUNTS PAYABLE

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

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Clients — trade settlement	<b>495,828</b>	322,961
Clearing house	<b>6,961</b>	44,765
Brokers	<b>192,013</b>	128,879
	<b>694,802</b>	496,605

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

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

## 23. CONTRACT LIABILITIES

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Contract liabilities	<b>25,360</b>	18,128

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

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 24. SHARE CAPITAL

	Number of shares		Share capital	
	Six months ended 30/6/2019 Thousand Shares (Unaudited)	Year ended 31/12/2018 Thousand Shares (Audited)	Six months ended 30/6/2019 HK\$'000 (Unaudited)	Year ended 31/12/2018 HK\$'000 (Audited)
<b>Issued and fully paid</b>				
At the end of the reporting period	<b>2,734,392</b>	2,734,392	<b>3,942,216</b>	3,942,216

### 25. RELATED PARTY TRANSACTIONS

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

#### (a) Ultimate holding company

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
<b>Transaction</b>		
Interest income from deposits	<b>3,933</b>	744
Finance costs	<b>28,213</b>	45,670
Commission income	–	1,696
Commission expenses	<b>1,262</b>	1,744
Asset management and advisory income	<b>2,007</b>	4,118
Fund management fee income	<b>9,893</b>	6,796
Rental expenses	<b>146</b>	151
Other operating expenses	<b>775</b>	1,064
Trading gain from derivatives transactions	<b>9,149</b>	903
Realised gain on financial assets at fair value through profit or loss	<b>1,210</b>	714
Unrealised gain/(loss) on financial assets at fair value through profit or loss	<b>3,335</b>	(799)

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 25. RELATED PARTY TRANSACTIONS (continued)

## (a) Ultimate holding company (continued)

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
<b>Balance of transaction</b>		
Derivative financial assets	909	–
Borrowings	550,000	850,000
Subordinated loans	1,000,000	1,000,000
Derivative financial liabilities	–	5,306
Accounts payable	45,328	31,858
Amount due to the ultimate holding company	<u>3,265</u>	<u>3,745</u>

## (b) Fellow subsidiaries and associates

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
<b>Transaction</b>		
Interest income from deposits	19	39
Commission income	3,737	5,206
Commission expenses	558	711
Asset management and advisory income	4,596	3,985
Fund management fee income	1,428	–
Underwriting fee income	–	4,293
Rental expenses	4,524	4,600
Other operating expenses	<u>1,176</u>	<u>3,792</u>
	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
<b>Balance of transaction</b>		
Amount due from a fellow subsidiary	28	–
Amount due to a fellow subsidiary	<u>–</u>	<u>83</u>

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 25. RELATED PARTY TRANSACTIONS (continued)

#### (c) Related parties

	Six months ended	
	30/6/2019 HK\$'000 (Unaudited)	30/6/2018 HK\$'000 (Unaudited)
<b>Transaction</b>		
Interest income from debt investment	441	5,141
Fund management fee income	8,556	10,406
	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
<b>Balance of transaction</b>		
Gross amounts due from related parties	2,671	3,243
Less: impairment allowance	(1)	(1)
	<u>2,670</u>	<u>3,242</u>

### 26. COMMITMENTS

#### Operating leases commitments

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

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
No later than 1 year	–	70,742
Later than 1 year and no later than 5 years	–	79,505
	<u>–</u>	<u>150,247</u>

The Group has adopted HKFRS 16 Leases from 1 January 2019. The operating leases under the principles of HKAS 17 previously have been recognised as lease liabilities since 1 January 2019.

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 26. COMMITMENTS (continued)

## Investment commitments

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

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
Unfunded commitments	<b>176,736</b>	274,803

## 27. CONTINGENT LIABILITIES

## Guaranteed return by asset management service

In connection with the Group's asset management service, the Group entered into a service agreement in August 2015 which provides a client with a guarantee on the investment principal and return. The investment principal amounted to MOP500,000,000. The service agreement will expire in August 2020. In November 2016, the Group entered into another service agreement with the same client on similar terms for an additional investment principal of MOP500,000,000, which will expire in November 2021. In March 2018, the Group entered into another service agreement with the same client on similar terms for an additional investment principal of MOP2,000,000,000, which will expire in March 2023. Performance of the relevant investment portfolios will be subject to uncertainties such as market conditions and volatility.

The relevant investment portfolios mainly consist of fixed income instruments, and the total annual guarantee on investment return from the portfolios is MOP75,000,000. During the year 2018, the average yield of 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 six months ended 30 June 2019, the average yield of the relevant investment portfolios were above the guaranteed return. As such, no relevant contingent liability recognised for the period ended 30 June 2019.

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 28. FINANCIAL RISK MANAGEMENT

The Group's major financial instruments include financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss, loans and receivables (made up of other assets, accounts and other receivables, loans and advances), margin loans to customers, receivable from reverse repurchase agreements, amount due from 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.

The unaudited condensed consolidated interim financial statements do not include all financial risk management information and disclosures related to the unaudited condensed consolidated financial statements, and should be read in conjunction with disclosure in the consolidated financial statements for the year ended 31 December 2018.

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 28. FINANCIAL RISK MANAGEMENT (continued)

## CREDIT RISK EXPOSURE OF FINANCIAL INSTRUMENTS

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

	Stage of assets			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL (credit- impaired) HK\$'000	
(a) Margin loans to customers				
Gross carrying amount as at 1 January 2019	3,553,670	314,156	141,216	4,009,042
Increases	364,123	34,305	3,278	401,706
Decreases	(902,213)	(60,451)	(17,750)	(980,414)
Transfers between stages				
– Increase	–	39,150	–	39,150
– Decrease	(39,148)	–	(2)	(39,150)
As at 30 June 2019	<u>2,976,432</u>	<u>327,160</u>	<u>126,742</u>	<u>3,430,334</u>
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	<u>3,553,670</u>	<u>314,156</u>	<u>141,216</u>	<u>4,009,042</u>
(b) Accounts receivable, other receivables and amounts due from related parties				
Gross carrying amount as at 1 January 2019	879,693	–	1,682	881,375
Increases	1,277,178	–	6,855	1,284,033
As at 30 June 2019	<u>2,156,871</u>	<u>–</u>	<u>8,537</u>	<u>2,165,408</u>
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	<u>879,693</u>	<u>–</u>	<u>1,682</u>	<u>881,375</u>

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 28. FINANCIAL RISK MANAGEMENT (continued)

#### CREDIT RISK EXPOSURE OF FINANCIAL INSTRUMENTS (continued)

	Stage of assets			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL (credit- impaired) HK\$'000	
(c) Debt investments at FVOCI				
Gross carrying amount as at 1 January 2019	1,306,675	–	–	1,306,675
Increases	1,531,715	–	–	1,531,715
Decreases	(242,682)	–	–	(242,682)
As at 30 June 2019	<u>2,595,708</u>	<u>–</u>	<u>–</u>	<u>2,595,708</u>
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	<u>1,306,675</u>	<u>–</u>	<u>–</u>	<u>1,306,675</u>
(d) Other financial assets at amortised cost				
Gross carrying amount as at 1 January 2019	2,052,827	–	270,970	2,323,797
Increases	66,409	–	–	66,409
Decreases	(772,744)	–	–	(772,744)
As at 30 June 2019	<u>1,346,492</u>	<u>–</u>	<u>270,970</u>	<u>1,617,462</u>
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	<u>2,052,827</u>	<u>–</u>	<u>270,970</u>	<u>2,323,797</u>

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 28. FINANCIAL RISK MANAGEMENT (continued)

## CREDIT RISK EXPOSURE OF FINANCIAL INSTRUMENTS (continued)

As at 30 June 2019, the Group's credit risk exposure of financial instruments for which an expected credit loss ("ECL") allowance is recognised as follows according to the stage of ECL:

	Stage of assets			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL (credit- impaired) HK\$'000	
(a) Margin loans to customers				
As at 1 January 2019	11,569	251	78,851	90,671
Increases	648	–	4,446	5,094
Reverses	(7,042)	(240)	–	(7,282)
Transfers between stages				
– Increase	–	24	–	24
– Decrease	(24)	–	–	(24)
As at 30 June 2019	<u>5,151</u>	<u>35</u>	<u>83,297</u>	<u>88,483</u>
As at 1 January 2018	45,452	1,137	52,855	99,444
Increases	6,201	167	25,996	32,364
Reverses	(41,050)	(87)	–	(41,137)
Transfers between stages				
– Increase	1,093	127	–	1,220
– Decrease	(127)	(1,093)	–	(1,220)
As at 31 December 2018	<u>11,569</u>	<u>251</u>	<u>78,851</u>	<u>90,671</u>
(b) Accounts receivable, other receivables and amounts due from related parties				
As at 1 January 2019	281	–	1,683	1,964
Increases	521	–	–	521
Reverses	–	–	(1)	(1)
As at 30 June 2019	<u>802</u>	<u>–</u>	<u>1,682</u>	<u>2,484</u>
As at 1 January 2018	424	–	9,088	9,512
Reverses	(143)	–	(7,405)	(7,548)
As at 31 December 2018	<u>281</u>	<u>–</u>	<u>1,683</u>	<u>1,964</u>

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 28. FINANCIAL RISK MANAGEMENT (continued)

## CREDIT RISK EXPOSURE OF FINANCIAL INSTRUMENTS (continued)

	Stage of assets			Total HK\$'000
	Stage 1 12-month ECL HK\$'000	Stage 2 Lifetime ECL HK\$'000	Stage 3 Lifetime ECL (credit- impaired) HK\$'000	
(c) Debt investments at FVOCI				
As at 1 January 2019	12,371	–	–	12,371
Increases	11,150	–	–	11,150
Reverses	(174)	–	–	(174)
As at 30 June 2019	<u>23,347</u>	<u>–</u>	<u>–</u>	<u>23,347</u>
As at 1 January 2018	13,373	–	–	13,373
Increases	4,186	–	–	4,186
Reverses	(5,188)	–	–	(5,188)
As at 31 December 2018	<u>12,371</u>	<u>–</u>	<u>–</u>	<u>12,371</u>
(d) Other financial assets at amortised cost				
As at 1 January 2019	2,295	–	270,970	273,265
Increases	527	–	–	527
Reverses	(1,842)	–	–	(1,842)
As at 30 June 2019	<u>980</u>	<u>–</u>	<u>270,970</u>	<u>271,950</u>
As at 1 January 2018	5,750	–	270,970	276,720
Increases	1,918	–	–	1,918
Reverses	(5,373)	–	–	(5,373)
As at 31 December 2018	<u>2,295</u>	<u>–</u>	<u>270,970</u>	<u>273,265</u>

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 28. FINANCIAL RISK MANAGEMENT (continued)

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

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2019.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 28. FINANCIAL RISK MANAGEMENT (continued)

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

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

As at 30 June 2019	Valuation technique	Unobservable inputs	Range	Relationship of unobservable inputs to fair value
<b>Financial assets at fair value through other comprehensive income</b>				
Unlisted equity	Allocated net asset value	Net asset value	N/A	(iv)
	Market comparable approach	EBITDA multiples	10.7x–27.2x	(iii)
		Discount rate for lack of marketability	35%	(ii)
<b>Financial assets at fair value through profit or loss</b>				
Club debenture Unlisted equity	Recent transaction price	Liquidity discount rate	25%	(ii)
	Recent transaction price	(i)	N/A	(v)
	Allocated net asset value	Net asset value	N/A	(iv)
Unlisted fund	Market comparable approach	Sales multiples	1.0x–15.3x	(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)
Preference shares	Recent transaction price	(i)	N/A	(v)
	Market comparable approach	Sales multiples	15.3x	(iii)
		Discounted cash flow/Monte Carlo Simulation	Discount rate/(i)/ Underlying fund terms	14.5%/N/A/ 3 years
Equity-linked loan	Guaranteed principal plus expected return	Expected rate	N/A	(vi)
Structured deposit				
<b>Financial liabilities at fair value through profit or loss</b>				
Structured note payable	Recent transaction price	(i)	N/A	(v)

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 28. FINANCIAL RISK MANAGEMENT (continued)

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

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

(i) The Directors of the Company consider that the financial position of these investments has no significant change between its recent transaction date/exit date and the reporting date, and hence no adjustment to the recent transaction price/exit price is needed.

(ii) The higher the discount rate, the lower the fair value.

(iii) The higher the multiples, the higher the fair value.

## Notes to the Condensed Consolidated Financial Statements (Continued)

### 28. FINANCIAL RISK MANAGEMENT (continued)

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

- (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 six months ended 30 June 2019 and for the year ended 31 December 2018.

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
<b>Financial assets at fair value through other comprehensive income</b>		
Beginning of the period/year	<b>125,301</b>	1,217,350
Addition during the period/year	–	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 period/year	<b>(58,737)</b>	(518,272)
Net loss recognised in profit or loss	–	(328)
Net loss recognised in other comprehensive income	<b>(2,013)</b>	(3,279)
End of the period/year	<b>64,551</b>	125,301

## Notes to the Condensed Consolidated Financial Statements (Continued)

## 28. FINANCIAL RISK MANAGEMENT (continued)

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

	30/6/2019 HK\$'000 (Unaudited)	31/12/2018 HK\$'000 (Audited)
<b>Financial assets at fair value through profit or loss</b>		
Beginning of the period/year	<b>3,483,928</b>	2,106,150
Addition during the period/year	<b>215,894</b>	2,209,546
Reclassification from financial assets at fair value through other comprehensive income	–	639,250
Reclassification to financial assets at fair value through other comprehensive income	–	(10,306)
Disposal during the period/year	<b>(186,926)</b>	(1,876,170)
Net gain recognised in profit or loss	<b>77,683</b>	415,458
End of the period/year	<b><u>3,590,579</u></b>	<b><u>3,483,928</u></b>
<b>Financial liabilities at fair value through profit or loss</b>		
Beginning of the period/year	<b>19,550</b>	–
Addition during the period/year	–	19,550
Net loss recognised in profit or loss	<b>(65)</b>	–
End of the period/year	<b><u>19,485</u></b>	<b><u>19,550</u></b>

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

## Glossary

"1H"	the first six months of a particular calendar year
"AUM"	the amount of assets under management
"Board" or "Board of Directors"	the Board of Directors of the Company
"BOCOM"	Bank of Communications Co., Ltd. (交通銀行股份有限公司), established in 1908, a company registered in the PRC as a joint stock limited liability company on 24 December 2004, the H shares and A shares of which are listed on the Stock Exchange and the Shanghai Stock Exchange, respectively, and the ultimate controlling shareholder of the Company
"BOCOM International (Shanghai)"	BOCOM International (Shanghai) Equity Investment Management Company Limited (交銀國際(上海)股權投資管理有限公司), a company incorporated in the PRC with limited liability on 25 October 2010 and a subsidiary of the Company
"BOCOM International (Shenzhen)"	BOCOM International Equity Investment Management (Shenzhen) Company Limited (交銀國際股權投資管理(深圳)有限公司), a company incorporated in the PRC with limited liability on 3 February 2016, a subsidiary of BOCOM International Asset Management Limited and an indirect subsidiary of the Company
"BOCOM Nominee"	Bank of Communications (Nominee) Company Limited, a company incorporated in Hong Kong with limited liability on 21 August 1981 and a subsidiary of BOCOM and a shareholder of the Company holding Shares on trust for BOCOM
"BOCOM Science and Technology Innovation Equity Investment Fund"	BOCOM Science and Technology Innovation Equity Investment Fund (Shanghai) Partnership Enterprise (Limited partnership) ("交銀科創股權投資基金(上海)合夥企業(有限合夥)")
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company"	BOCOM International Holdings Company Limited (交銀國際控股有限公司), a company incorporated in Hong Kong with limited liability on 3 June 1998, the issued Shares of which are listed on the main board of the Stock Exchange
"Corporate Governance Code"	code on corporate governance practices contained in Appendix 14 to the Listing Rules
"Director(s)"	director(s) of the Company
"Expectation Investment"	Expectation Investment Limited, a company incorporated in Hong Kong with limited liability on 29 January 1997, an indirect subsidiary of BOCOM and a shareholder of the Company

## Glossary

"Federal Reserve"	Federal Reserve System of the US
"GDP"	gross domestic product
"Group" or "we" or "us"	the Company and its subsidiaries
"HKD" or "HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"IPO(s)"	initial public offering(s)
"Listing"	listing of the shares on the Main Board of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time)
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"MOP"	Macau Pataca, the lawful currency of Macau
"MSCI"	the Morgan Stanley Capital International Index
"PRC" or "China"	People's Republic of China
"Prospectus"	the prospectus of the Company dated 5 May 2017
"Reporting Period"	the six months ended 30 June 2019
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	Securities and Futures Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Stock Exchange"	the Shanghai Stock Exchange (上海證券交易所)
"Share(s)"	ordinary share(s) in the capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange" or "HKEX"	The Stock Exchange of Hong Kong Limited
"TMT"	telecommunications, media and technology
"US" or "United States"	the United States of America
"USD" or "US\$"	United States dollars, the lawful currency of the United States