交銀國際
BOCOM International

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

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 3329)**

## ANNOUNCEMENT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Board is pleased to announce the audited consolidated financial results of the Group for the year ended 31 December 2018 together with the comparative figures for the year ended 31 December 2017.

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

| | *Notes* | **2018** **HK$'000** | 2017 *HK$'000* |
|---|---|---|---|
| Revenue | *5* | **1,397,862** | 1,174,949 |
| Other income | *5* | **86,397** | 45,584 |
| **Revenue and other income** | | **1,484,259** | 1,220,533 |
| Commission and brokerage expenses | | **(53,002)** | (75,230) |
| Finance costs | *6* | **(352,227)** | (133,028) |
| Staff costs | *7* | **(361,675)** | (276,753) |
| Depreciation | | **(8,805)** | (8,685) |
| Other operating expenses | | **(306,924)** | (211,310) |
| Change in impairment allowance | *8* | **20,778** | (80,375) |
| Total expenses | | **(1,061,855)** | (785,381) |
| Operating profit | | **422,404** | 435,152 |
| Share of results of associates | | **(179)** | 998 |
| Share of results of joint ventures | | **41** | 13 |
| Gain on disposal of an associate | | **15,380** | – |

| | Notes | **2018** | 2017 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Profit before taxation** | | **437,646** | 436,163 |
| Income tax expense | *9* | **(26,650)** | (32,651) |
| **Profit for the year** | | **410,996** | 403,512 |
| **Attributable to:** | | | |
| Shareholders of the Company | | **407,605** | 403,907 |
| Non-controlling interests | | **3,391** | (395) |
| | | **410,996** | 403,512 |
| **Earnings per share attributable to shareholders of the Company for the year – Basic/Diluted (in HKD per share)** | *11* | **0.15** | 0.16 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Profit for the year** | **410,996** | 403,512 |
| **Other comprehensive (loss)/income** | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Changes in fair value of debt investments at fair value through other comprehensive income | **(126,971)** | – |
| Changes in fair value of available-for-sale investments | **–** | 89,288 |
| Amounts reclassified to profit or loss upon disposal of debt investments at fair value through other comprehensive income | **(1,092)** | – |
| Amounts reclassified to profit or loss upon disposal of available-for-sale investments | **–** | (61,019) |
| | **(128,063)** | 28,269 |
| Exchange differences on translation of foreign operations | **(17,472)** | – |
| | **(145,535)** | 28,269 |
| *Items that will not be reclassified subsequently to profit or loss* | | |
| Changes in fair value of equity investments at fair value through other comprehensive income | **(51,899)** | – |
| **Other comprehensive (loss)/income, net of tax** | **(197,434)** | 28,269 |
| **Total comprehensive income** | **213,562** | 431,781 |
| **Attributable to:** | | |
| Shareholders of the Company | **210,171** | 432,176 |
| Non-controlling interests | **3,391** | (395) |
| | **213,562** | 431,781 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

| | *Notes* | **31/12/2018** **HK$'000** | 31/12/2017 HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current Assets** | | | |
| Property and equipment | | **32,129** | 20,983 |
| Intangible assets | | **3,196** | 3,196 |
| Interest in associates | | **212,553** | 103,714 |
| Interest in joint ventures | | **2,915** | 1,782 |
| Other assets | | **22,867** | 42,042 |
| Available-for-sale investments | | **–** | 4,524,786 |
| Financial assets at fair value through other comprehensive income | | **2,503,218** | – |
| Loans and advances | *12* | **156,136** | 384,572 |
| Receivable from reverse repurchase agreements | | **437,511** | – |
| Deferred tax assets | | **18,685** | 656 |
| **Total non-current assets** | | **3,389,210** | 5,081,731 |
| **Current Assets** | | | |
| Loans and advances | *12* | **1,269,215** | 1,093,548 |
| Tax recoverable | | **10,987** | 10,987 |
| Accounts receivable | *13* | **641,190** | 560,990 |
| Other receivables and prepayments | *14* | **300,999** | 172,126 |
| Margin loans to customers | *15* | **3,918,371** | 6,416,790 |
| Receivable from reverse repurchase agreements | | **187,670** | – |
| Amounts due from related parties | | **3,242** | 3,392 |
| Financial assets at fair value through profit or loss | | **4,141,644** | 2,757,659 |
| Derivative financial assets | | **5,306** | 831 |
| Cash and bank balances | | **594,005** | 1,870,268 |
| **Total current assets** | | **11,072,629** | 12,886,591 |
| **Total assets** | | **14,461,839** | 17,968,322 |
| **Equity and liabilities** | | | |
| **Equity attributable to shareholders of the Company** | | | |
| Share capital | | **3,942,216** | 3,942,216 |
| Retained earnings | | **2,520,038** | 2,399,314 |
| Revaluation reserve | | **(170,708)** | 14,508 |
| Foreign currency translation reserve | | **(17,472)** | – |
| **Total equity attributable to shareholders of the Company** | | **6,274,074** | 6,356,038 |
| Non-controlling interests | | **134** | 4,077 |
| **Total equity** | | **6,274,208** | 6,360,115 |

| | Notes | 31/12/2018 HK$'000 | 31/12/2017 HK$'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | | **4,988,200** | – |
| Subordinated loans from the ultimate holding company | | **1,000,000** | – |
| Obligation under repurchase agreements | | **478,146** | – |
| Deferred tax liabilities | | **–** | 130 |
| **Total non-current liabilities** | | **6,466,346** | 130 |
| **Current Liabilities** | | | |
| Borrowings | | **763,630** | 10,068,242 |
| Subordinated loans from the ultimate holding company | | **–** | 1,000,000 |
| Obligation under repurchase agreements | | **193,936** | – |
| Tax payable | | **36,026** | 5,783 |
| Provision for staff costs | | **78,516** | 53,710 |
| Other payables and accrued expenses | | **94,367** | 38,145 |
| Accounts payable | *16* | **496,605** | 390,668 |
| Deferred revenue | | **–** | 25,788 |
| Contract liability | | **18,128** | – |
| Amount due to the ultimate holding company | | **3,745** | 6,080 |
| Amount due to a fellow subsidiary | | **83** | – |
| Financial liabilities at fair value through profit or loss | | **30,960** | 18,858 |
| Derivative financial liabilities | | **5,289** | 803 |
| **Total current liabilities** | | **1,721,285** | 11,608,077 |
| **Total liabilities** | | **8,187,631** | 11,608,207 |
| **Total equity and liabilities** | | **14,461,839** | 17,968,322 |
| **Net current assets** | | **9,351,344** | 1,278,514 |
| **Total assets less current liabilities** | | **12,740,554** | 6,360,245 |

# NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

## 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 years ended 31 December 2018 and 2017 included in this announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements 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 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements, except for the adoption of amendments to HKFRSs effective for the financial year ended 31 December 2018.

**(a) New and amended standards adopted by the Group**

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- HKFRS 9 Financial Instruments
- HKFRS 15 Revenue from Contracts with Customers
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group had to change its accounting policies and make certain retrospective adjustments following the adoption of HKFRS 9 and HKFRS 15. Other amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods. The impact of the adoption of HKFRS 9 and HKFRS 15 are disclosed in Note 3.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

***(i) HKFRS 16 Leases***

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$150,247 thousand. Of these commitments, approximately HK$26 thousand relate to short-term lease and will be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments, the Group expects to recognise right-of-use assets of approximately HK$139,869 thousand on 1 January 2019, lease liabilities of HK$143,190 thousand (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018). Overall net assets will be approximately HK$3,321 thousand lower, and net current assets will be HK$65,983 thousand lower due to the presentation of a portion of the liability as a current liability.

The Group has no lessor activities and hence there is no impact on the financial statements.

The Group will apply the standard from its mandatory adoption date of 1 January 2019.

The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 3. CHANGE IN ACCOUNTING POLICIES

The Group has initially applied HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers with effect from 1 January 2018 and has taken transitional provisions and methods not to restate comparative information for prior periods. The comparative information continues to be reported under the accounting policies prevailing prior to 1 January 2018.

### (a) Impact on the financial statements

The adoption of HKFRS 9 has resulted in changes in accounting policies. While the new policies are generally required to be applied retrospectively, as explained in note 3(b) below, the Group has taken transitional provisions in HKFRS 9. With the exception of certain aspects of hedge accounting, the Group will not restate the comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative balances have not been restated. Differences in the carrying amounts resulting from the adoption of HKFRS 9 are recognised as adjustments to the opening consolidated statement of financial position on 1 January 2018.

As explained in note 3(c) below, HKFRS 15 permits either a full retrospective or a modified retrospective approach for the adoption. The Group has elected to apply the modified retrospective approach for transition to the new accounting standard. Under this transition approach, comparative information for prior periods is not restated. The Group recognises the cumulative effect of initially applying HKFRS 15 as adjustments to the opening balance of retained earnings (or other component of equity, as appropriate) on 1 January 2018, and the Group applies the new accounting standard by using practical expedients such that contracts completed before 1 January 2018 are not reassessed. The application of HKFRS 15 has resulted in no impact on the opening balance of total equity on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail in note 3(b) to note 3(c).

| Consolidated Statement of Financial Position (extract) | 31 December 2017 As originally presented | Effect on adoption of HKFRS 9 | 1 January 2018 Restated |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current assets** | | | |
| Available-for-sale investments | 4,524,786 | (4,524,786) | – |
| Financial assets at fair value through other comprehensive income (FVOCI) | – | 3,548,594 | 3,548,594 |
| Loans and advances | 384,572 | (531) | 384,041 |
| Deferred tax assets | 656 | 13,291 | 13,947 |
| **Current assets** | | | |
| Loans and advances | 1,093,548 | (5,219) | 1,088,329 |
| Accounts receivable | 560,990 | (9,139) | 551,851 |
| Other receivables and prepayments | 172,126 | (371) | 171,755 |
| Margin loans to customers | 6,416,790 | (71,413) | 6,345,377 |
| Amounts due from related parties | 3,392 | (2) | 3,390 |
| Financial assets at fair value through profit or loss (FVPL) | 2,757,659 | 976,192 | 3,733,851 |
| Derivative financial assets | 831 | – | 831 |
| Cash and bank balances | 1,870,268 | – | 1,870,268 |
| **Total assets** | 17,785,618 | (73,384) | 17,712,234 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 130 | – | 130 |
| **Current liabilities** | | | |
| Financial liabilities at fair value through profit or loss | 18,858 | – | 18,858 |
| Derivative financial liabilities | 803 | – | 803 |
| **Total liabilities** | 19,791 | – | 19,791 |
| **Net assets** | 17,765,827 | (73,384) | 17,692,443 |
| Retained earnings | 2,399,314 | (62,115) | 2,337,199 |
| Revaluation reserve | 14,508 | (11,269) | 3,239 |
| **Total equity** | 2,413,822 | (73,384) | 2,340,438 |

**(b) HKFRS 9 Financial instruments**

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in HKFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings as at 1 January 2018 and 1 January 2017 is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Closing retained earnings at 31 December 2017 and 2016 – HKAS 39** | **2,399,314** | 1,995,407 |
| Reclassify investments from available-for-sale to FVPL | **24,642** | – |
| Increase in provision for loans and advances | **(5,750)** | – |
| Increase in provision for accounts receivable | **(9,139)** | – |
| Increase in provision for other receivables | **(371)** | – |
| Increase in provision for margin loans to customers | **(71,413)** | – |
| Increase in provision for amounts due from related parties | **(2)** | – |
| Increase in provision for debt investments at FVOCI | **(13,373)** | – |
| Increase in deferred tax assets relating to impairment provisions | **13,291** | – |
| Adjustment to retained earnings from adoption of HKFRS 9 on 1 January 2018 | **(62,115)** | – |
| **Opening retained earnings at 1 January 2018 and 2017 – HKFRS 9** | **2,337,199** | 1,995,407 |

*(i)* ***Classifications and measurement***

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

| **Financial assets – 1 January 2018** | **FVPL** *HK$'000* | **FVOCI (Available-for-sale investments 2017)** *HK$'000* | **Amortised costs (Receivables 2017)** *HK$'000* |
|---|---|---|---|
| **Closing balance at 31 December 2017 – HKAS 39*** | 2,757,659 | 4,524,786 | 8,631,418 |
| Reclassify debt investments from available-for-sale to FVPL | 381,057 | (381,057) | – |
| Reclassify equity investments from available-for-sale to FVPL | 405,627 | (405,627) | – |
| Reclassify other investments from available-for-sale to FVPL | 199,814 | (199,814) | – |
| Reclassify unlisted equity from FVPL to FVOCI | (10,306) | 10,306 | – |
| Reclassify investments from available-for-sale to FVOCI* | – | – | – |
| **Opening balance at 1 January 2018 – HKFRS 9** | 3,733,851 | 3,548,594 | 8,631,418 |

* The closing balances as at 31 December 2017 show available-for-sale financial assets under FVOCI. These reclassifications have no impact on the measurement categories. The financial assets at amortised cost are after reclassifications and adjustments (if any) arising from the adoption of HKFRS 15 (see note 3(c)) and include trade receivables and other financial assets at amortised cost, but exclude cash and cash equivalents. The opening balance as at 1 January 2018 differs from the amounts disclosed in note 3(a) because of the impairment adjustments to receivables (HK$86,675 thousand).

The impact of these changes on the Group's equity is as follows:

| | Effect on available-for-sale reserve *HK$'000* | Effect on FVOCI reserve* *HK$'000* | Effect on retained earnings* *HK$'000* |
|---|---|---|---|
| **Closing balance at 31 December 2017 – HKAS 39** | 14,508 | – | 2,399,314 |
| Reclassify equity investments from available-for-sale to FVPL | (27,818) | – | 27,818 |
| Reclassify debt investments from available-for-sale to FVPL | 5,086 | – | (5,086) |
| Reclassify other investments from available-for-sale to FVPL | (1,910) | – | 1,910 |
| Reclassify equity investments from available-for-sale to FVOCI | (3,124) | 3,124 | – |
| Reclassify debt investments from available-for-sale to FVOCI | 13,258 | (13,258) | – |
| **Total impact** | (14,508) | (10,134) | 24,642 |
| **Opening balance at 1 January 2018 – HKFRS 9** | – | (10,134) | 2,423,956 |

* Before adjustment for impairment.

*(ii) Impairment of financial assets*

The Group has eight types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- loans and advances
- receivable from reverse repurchase agreements
- debt securities carried at FVOCI
- margin loans to customers
- accounts receivable
- other receivables
- amount due from related parties, and
- cash and bank balances.

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table in note 3(b) above.

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

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

**(c) HKFRS 15 Revenue from Contracts with Customers**

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies. In accordance with the transition provisions in HKFRS 15, the Group has adopted the modified retrospective approach for the new rules. The Group assessed the impacts of adopting HKFRS 15 on its financial statements. Based on the assessment, the adoption of HKFRS 15 has no significant impact on the Group's revenue recognition and the Group's interest income, dividend income and proprietary trading income is not within the scope of HKFRS 15.

Upon the adoption of HKFRS 15, if there is any satisfied performance obligation where the Group does not have an unconditional right to any considerations, the Group should recognise a contract asset. No contract asset is recognised by the Group upon transition and at the end of the reporting period.

## 4. SEGMENT INFORMATION

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

(a) Brokerage segment provides securities trading and brokerage services.

(b) Corporate finance and underwriting segment provides corporate finance services including equity underwriting, debt underwriting, sponsor services and financial advisory services to institutional clients.

(c) Asset management and advisory segment offers traditional asset management products and services to third party clients. In addition, it also offers investment advisory services, portfolio management services and transaction execution services.

(d) Margin financing segment provides securities-backed financial leverage for both retail and institutional 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 third parties and there was no change in basis during the year ended 31 December 2018.

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

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

| | Year ended 31 December 2018 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Brokerage** | **Corporate finance and underwriting** | **Asset management and advisory** | **Margin financing** | **Investment and loans** | **Others** | **Elimination** | **Total** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Total revenue** | | | | | | | | |
| Revenue | | | | | | | | |
| Commission and fee income | | | | | | | | |
| – External | 165,551 | 59,869 | 82,054 | – | – | – | – | 307,474 |
| – Internal | – | – | 7,072 | – | – | – | (7,072) | – |
| Interest income | | | | | | | | |
| – External | – | – | – | 417,485 | 85,448 | – | – | 502,933 |
| – Internal | – | – | – | – | 33,025 | – | (33,025) | – |
| Proprietary trading income | | | | | | | | |
| – External | – | – | – | – | 587,455 | – | – | 587,455 |
| – Internal | – | – | – | – | – | – | – | – |
| Other income | 20,760 | – | 6 | – | 17,957 | 47,674 | – | 86,397 |
| | 186,311 | 59,869 | 89,132 | 417,485 | 723,885 | 47,674 | (40,097) | 1,484,259 |
| Total expenses | (219,155) | (125,598) | (97,927) | (192,891) | (466,381) | – | 40,097 | (1,061,855) |
| Share of results of associates | – | – | – | – | (179) | – | – | (179) |
| Share of results of joint ventures | – | – | – | – | 41 | – | – | 41 |
| Gain on disposal of an associate | – | – | – | – | 15,380 | – | – | 15,380 |
| **(Loss)/profit before taxation** | (32,844) | (65,729) | (8,795) | 224,594 | 272,746 | 47,674 | – | 437,646 |
| **Other disclosures** | | | | | | | | |
| Depreciation | (1,821) | (111) | (1,263) | (5,546) | (64) | – | – | (8,805) |
| Change in impairment allowance | – | 7,417 | – | 8,773 | 4,588 | – | – | 20,778 |
| Finance costs | – | – | – | (97,057) | (288,195) | – | 33,025 | (352,227) |

| | Year ended 31 December 2017 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Brokerage *HK$'000* | Corporate finance and underwriting *HK$'000* | Asset management and advisory *HK$'000* | Margin financing *HK$'000* | Investment and loans *HK$'000* | Others *HK$'000* | Elimination *HK$'000* | Total *HK$'000* |
| **Total revenue** | | | | | | | | |
| Revenue | | | | | | | | |
| Commission and fee income | | | | | | | | |
| – External | 190,310 | 154,127 | 99,766 | – | – | – | – | 444,203 |
| – Internal | – | 33,411 | 8,828 | – | – | – | (42,239) | – |
| Interest income | | | | | | | | |
| – External | – | – | – | 333,706 | 35,971 | – | – | 369,677 |
| – Internal | – | – | – | – | 12,642 | – | (12,642) | – |
| Proprietary trading income | | | | | | | | |
| – External | – | – | – | – | 361,069 | – | – | 361,069 |
| – Internal | – | – | – | – | – | – | – | – |
| Other income | 18,199 | 1,082 | 1,242 | – | 7,886 | 17,175 | – | 45,584 |
| | 208,509 | 188,620 | 109,836 | 333,706 | 417,568 | 17,175 | (54,881) | 1,220,533 |
| Total expenses | (215,019) | (177,917) | (99,713) | (135,498) | (149,571) | (62,544) | 54,881 | (785,381) |
| Share of results of associates | – | – | – | – | 998 | – | – | 998 |
| Share of results of joint ventures | – | – | – | – | 13 | – | – | 13 |
| **(Loss)/profit before taxation** | (6,510) | 10,703 | 10,123 | 198,208 | 269,008 | (45,369) | – | 436,163 |
| **Other disclosures** | | | | | | | | |
| Depreciation | (2,286) | (108) | (1,591) | (4,635) | (65) | – | – | (8,685) |
| Change in impairment allowance | – | (60,604) | – | (19,771) | – | – | – | (80,375) |
| Finance costs | – | – | – | (44,741) | (100,929) | – | 12,642 | (133,028) |

The geographical information of revenue is disclosed as follows:

| | **2018** *HK$'000* | 2017 *HK$'000* |
|---|---|---|
| Total revenue from external customers by location of operations | | |
| – Hong Kong | **1,468,845** | 1,196,769 |
| – Mainland China | **15,414** | 23,764 |
| | **1,484,259** | 1,220,533 |

## 5. REVENUE AND OTHER INCOME

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **REVENUE** | | |
| **COMMISSION AND FEE INCOME** | | |
| Brokerage commission | **165,551** | 190,310 |
| Corporate finance and underwriting fee | **59,869** | 154,127 |
| Asset management and advisory income | **82,054** | 99,766 |
| | **307,474** | 444,203 |
| **INTEREST INCOME** | | |
| Interest income from margin financing | **417,485** | 333,706 |
| Interest income from loans and advances | **79,602** | 35,971 |
| Interest income from receivable from reverse repurchase agreements | **5,846** | – |
| | **502,933** | 369,677 |
| **PROPRIETARY TRADING INCOME** | | |
| Unrealised gain on financial assets | **4,378** | 41,288 |
| Realised gain on financial assets at fair value through profit or loss | **241,667** | 53,823 |
| Realised gain on debt investments at fair value through other comprehensive income | **1,092** | – |
| Realised gain on available-for-sale investments | **–** | 61,019 |
| Realised loss on derivative financial assets | **(456)** | – |
| Fair value changes from financial liabilities at fair value through profit or loss | **3,418** | (3,004) |
| Dividend income from | | |
| – Financial assets at fair value through profit or loss | **75,176** | 1,822 |
| – Financial assets at fair value through other comprehensive income | **63,907** | – |
| – Available-for-sale investments | **–** | 67,605 |
| Interest income from | | |
| – Financial assets at fair value through profit or loss | **70,008** | 25,238 |
| – Financial assets at fair value through other comprehensive income | **128,265** | – |
| – Available-for-sale investments | **–** | 113,278 |
| | **587,455** | 361,069 |
| | **1,397,862** | 1,174,949 |
| **OTHER INCOME** | | |
| Handling fees | **20,841** | 18,285 |
| Other interest income | **36,675** | 15,472 |
| Exchange gains | **7,264** | 1,367 |
| Others | **21,617** | 10,460 |
| | **86,397** | 45,584 |

## 6. FINANCE COSTS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest expenses on subordinated loans from the ultimate holding company | **28,555** | 20,532 |
| Interest expenses on bank loans from the ultimate holding company | **49,066** | 31,329 |
| Interest expenses on bank loans and overdraft from other financial institutions | **197,112** | 79,514 |
| Interest expenses on a total return swap arrangement with external third parties | **57,730** | – |
| Interest expenses on obligation under repurchase agreements | **5,194** | – |
| Others | **26** | 1,653 |
| | **337,683** | 133,028 |
| Other borrowing costs to the ultimate holding company | **437** | – |
| Other borrowing costs to other financial institutions | **14,107** | – |
| | **352,227** | 133,028 |

## 7. STAFF COSTS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, bonus, staff allowances | **338,642** | 263,121 |
| Director's fees | **1,080** | 1,080 |
| Contributions to retirement benefit scheme | **21,953** | 12,552 |
| | **361,675** | 276,753 |

## 8. CHANGE IN IMPAIRMENT ALLOWANCE

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Receivable from reverse repurchase agreements | **(33)** | – |
| Accounts receivable | **7,434** | (60,604) |
| Margin loans to customers | **8,773** | (19,771) |
| Loans and advances | **3,488** | – |
| Debt investments carried at FVOCI | **1,002** | – |
| Other receivables | **113** | – |
| Amounts due from related parties | **1** | – |
| | **20,778** | (80,375) |

## 9. INCOME TAX EXPENSE

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| Hong Kong Profits Tax | **30,142** | 33,879 |
| PRC Enterprise Income Tax | **1,831** | – |
| Over provision in prior years | **–** | (874) |
| Total current tax | **31,973** | 33,005 |
| Deferred tax | | |
| Reversal from temporary difference | **(5,323)** | (354) |
| Income tax expense recognised in profit or loss | **26,650** | 32,651 |

Hong Kong Profits Tax has been provided at the rate of 16.5% on the estimated assessable profit for the years. Taxation on overseas profits has been calculated on the estimated assessable profit for the years at the rates of taxation prevailing in the countries in which the Group operates.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the People's Republic of China's entities is 25% from 1 January 2008 onwards.

## 10. DIVIDENDS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Final dividend proposed after the end of the reporting period of HK$0.08 per ordinary share (2017: HK$0.08 per ordinary share) | **218,751** | 218,751 |

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

## 11. EARNINGS PER SHARE

### (a) Basic

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

| | **2018** | 2017 |
|---|---|---|
| Profit attributable to shareholders of the Company (HK$ '000) | **407,605** | 403,907 |
| Weighted average number of ordinary shares in issue (in '000 shares) | **2,734,392** | 2,451,908 |
| Earnings per share (in HKD per share) | **0.15** | 0.16 |

### (b) Diluted

For the years ended 31 December 2018 and 2017, there were no potential diluted ordinary shares. The diluted earnings per share was the same as the basic earnings per share.

## 12. LOANS AND ADVANCES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Gross loans and advances | **1,698,583** | 1,749,090 |
| Less: impairment allowance | **(273,232)** | (270,970) |
| | **1,425,351** | 1,478,120 |
| Net loans and advances | | |
| Non-current portion | **156,136** | 384,572 |
| Current portion | **1,269,215** | 1,093,548 |
| | **1,425,351** | 1,478,120 |

The movements in impairment allowance of loans and advances are as follows:

| | 2018 | | |
|---|---|---|---|
| | **Impairment allowance under HKFRS 9** | **Impairment allowance under HKAS 39** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| As at 31 December 2017 | **–** | **270,970** | **270,970** |
| Amount restated through opening retained earnings on adoption of HKFRS 9 | **276,720** | **(270,970)** | **5,750** |
| As at 1 January 2018 | **276,720** | **–** | **276,720** |
| Change in impairment allowance during the year | **(3,488)** | **–** | **(3,488)** |
| As at 31 December 2018 | **273,232** | **–** | **273,232** |

| | Total |
|---|---|
| | *HK$'000* |
| As at 1 January 2017 | 270,970 |
| Change in impairment allowance during the year | – |
| As at 31 December 2017 | 270,970 |

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

## 13. ACCOUNTS RECEIVABLE

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Corporate finance and underwriting business | **16,819** | 105,599 |
| Less: written off | **–** | (60,604) |
| | **16,819** | 44,995 |
| Dealing in securities and futures business: | | |
| – Clients | **386,917** | 165,831 |
| – Brokers | **126,584** | 87,989 |
| – Clearing house | **112,575** | 262,175 |
| | **626,076** | 515,995 |
| Less: impairment allowance | **(1,705)** | – |
| | **641,190** | 560,990 |

The movements in impairment allowance of accounts receivable are as follows:

| | 2018 | | |
|---|---|---|---|
| | **Impairment allowance under HKFRS 9** | **Impairment allowance under HKAS 39** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| As at 31 December 2017 | **–** | **–** | **–** |
| Amount restated through opening retained earnings on adoption of HKFRS 9 | **9,139** | **–** | **9,139** |
| As at 1 January 2018 | **9,139** | **–** | **9,139** |
| Change in impairment allowance during the year | **(7,434)** | **–** | **(7,434)** |
| As at 31 December 2018 | **1,705** | **–** | **1,705** |

No impairment allowance was recognised during the year ended 31 December 2017.

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Neither past due nor credit-impaired | **640,610** | 551,726 |
| Less than 31 days past due | **122** | 177 |
| 31 – 60 days past due | **66** | 3 |
| 61 – 90 days past due | **5** | – |
| Over 90 days past due | **2,092** | 9,084 |
| | **2,285** | 9,264 |
| Less: impairment allowance | **(1,705)** | – |
| | **641,190** | 560,990 |

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

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.

## 14. OTHER RECEIVABLES AND PREPAYMENTS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other receivables | **235,237** | 163,047 |
| Less: impairment allowance | **(258)** | – |
| | **234,979** | 163,047 |
| Prepayments | **66,020** | 9,079 |
| | **300,999** | 172,126 |

## 15. MARGIN LOANS TO CUSTOMERS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Gross margin loans to customers | **4,009,042** | 6,444,821 |
| Less: impairment allowance | **(90,671)** | (28,031) |
| Net margin loans to customers | **3,918,371** | 6,416,790 |

The movements in impairment allowance of margin loans to customers are as follows:

| | **2018** | | |
|---|---|---|---|
| | **Impairment allowance under HKFRS 9** | **Impairment allowance under HKAS 39** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| As at 31 December 2017 | **–** | **28,031** | **28,031** |
| Amount restated through opening retained earnings on adoption of HKFRS 9 | **99,444** | **(28,031)** | **71,413** |
| As at 1 January 2018 | **99,444** | **–** | **99,444** |
| Change in impairment allowance during the year | **(8,773)** | **–** | **(8,773)** |
| As at 31 December 2018 | **90,671** | **–** | **90,671** |

| | Total |
|---|---|
| | *HK$'000* |
| As at 1 January 2017 | 8,260 |
| Change in impairment allowance during the year | 19,771 |
| As at 31 December 2017 | 28,031 |

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Margin loans to customers analysed by nature** | | |
| Institutions | **2,922,792** | 4,744,714 |
| Individuals | **995,579** | 1,672,076 |
| | **3,918,371** | 6,416,790 |
| **Total market value of securities pledged as collateral in respect of margin loans to customers analysed by collateral** | | |
| Stocks | **16,821,961** | 19,882,918 |
| Debt securities | **526,995** | 164,488 |
| | **17,348,956** | 20,047,406 |

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.

## 16. ACCOUNTS PAYABLE

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Clients – trade settlement | **322,961** | 388,080 |
| Clearing house | **44,765** | 2,588 |
| Brokers | **128,879** | – |
| | **496,605** | 390,668 |

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

As one of the earliest licensed securities firms with a PRC background in Hong Kong, we are one of the largest securities firms specializing in securities brokerage and margin financing, corporate finance and underwriting, investment and loans, asset management and advisory businesses. We believe that one of our core competitive strengths is our ability to offer comprehensive and integrated financial services and products that fulfill various investment and wealth management needs of clients. During the Year, the Group's revenue and other income was HK$1,484.3 million, representing an increase of 21.6% when compared with HK$1,220.5 million in 2017. The Group's profit was HK$411.0 million, representing an increase of 1.9% when compared with HK$403.5 million in 2017.

***Securities Brokerage and Margin Financing***

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

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

Apart from the infrastructure enhancement, we also launched series of activities for product knowledge sharing. Being one of the top performing participants recognised by the Hong Kong Exchanges and Clearing Limited (HKEX), we received "Award in Providing Stock Futures Education" on 10 December 2018.

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

The Hong Kong stock market was bullish at the beginning of 2018. The Hang Seng Index hit its record high on 26 January 2018 since 2007, but experienced fluctuations in the latter part of the first quarter caused by concerns about faster-than-expected rate hike in the US, increased trade tensions between US and the Mainland China and the adjustments of Chinese domestic policies, etc. The decline in trading activities from quarter to quarter reflected the diversity of macro environment and poor market sentiment.

For the year ended 31 December 2018, our commission and fee income from the securities brokerage business was HK$165.6 million, decreased by HK$24.7 million or 13.0% as compared with 2017.

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

| | **Year ended 31 December** | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | ***HK$' million*** | *%* | *HK$' million* | *%* |
| Hong Kong stock | **132.0** | **79.7** | 161.5 | 84.9 |
| Non-Hong Kong stock | **10.2** | **6.2** | 10.8 | 5.7 |
| Bonds | **7.2** | **4.3** | 7.4 | 3.9 |
| Others | **16.2** | **9.8** | 10.6 | 5.5 |
| | **165.6** | **100.0** | 190.3 | 100.0 |

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

During the Year, the number of our margin client accounts continued to grow. The monthly average loan balance remained at high level until end of the Year, interest income from margin loans for the year ended 31 December 2018 was HK$417.5 million, increased by HK$83.8 million or 25.1% as compared with 2017.

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

| | **2018** | 2017 |
|---|---|---|
| Number of margin accounts | **7,961** | 6,657 |
| Balance of gross margin loans (HK$' million) | **4,009.0** | 6,444.8 |
| Monthly average balance (HK$' million) | **5,950.6** | 4,994.0 |
| Highest month end balance (HK$' million) | **6,640.8** | 6,444.8 |
| Lowest month end balance (HK$' million) | **4,009.0** | 4,836.8 |
| Margin value (HK$' million) *(note 1)* | **3,871.0** | 5,146.9 |
| Market value (HK$' million) *(note 2)* | **17,349.0** | 20,047.4 |

*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 2018, there were a total of 218 new listings in Hong Kong, including the transfer of listing from GEM to Main Board. The number of new listings has increased by 25.3% as compared with 2017. The aggregate amount of funds raised was HK$286.5 billion, increased by 122.9% as compared with 2017.

In 2018, we have completed 2 IPO sole sponsorship projects, and 38 equity securities underwriting and debt issuance projects, successfully assisted corporations in raising US$13.1 billion in aggregate.

For the year ended 31 December 2018, our commission and fee income from corporate finance and underwriting services was HK$59.9 million as compared to HK$154.1 million in 2017, reflecting the cyclical nature of our corporate finance business.

### *Asset Management and Advisory*

We offer a full range of asset management and advisory business, comprising public and private funds, specialized asset management and investment advisory. In addition to Hong Kong entities, we have extended our services to Mainland China via the establishment of BOCOM International (Shanghai) in Shanghai and BOCOM International (Shenzhen) in Qianhai, Shenzhen. The former is engaged in RMB private equity fund management and provides investment advisory services, while the latter serves as our pioneer to grasp the business opportunities in the Guangdong – Hong Kong – Macao Greater Bay Area. The first fund managed by BOCOM International (Shenzhen) completed its private investment fund filing with the Asset Management Association of China on 20 July 2018.

As at 31 December 2018, the total amount of AUM was approximately HK$24,810.9 million, representing a decrease of approximately 8.6% from HK$27,137.9 million as at 31 December 2017. For the year ended 31 December 2018, asset management and advisory fee income was approximately HK$82.1 million which comprised of management fee income of HK$72.8 million and advisory fee income of HK$9.3 million.

### *Investment and Loans*

Our investment and loans business comprises investment in various equity and debt securities as well as public and private funds, and structured financing and loans to enterprises to meet various financing needs. We aim to achieve a balance between mitigating investment risks and achieving investment returns.

For equity investment, we generally prefer pre-IPO investments in innovative technology companies, biotech companies and other new economy companies which will be eligible for public listing in the capital markets in Hong Kong, Mainland China or overseas. Some of our investments are well recognised by the market as unicorns, with active market, growth potential and clear exit plan.

In order to reduce the negative impact on price of bonds and preference shares, we shift our resources allocation from fixed-income investment to structured finance with high-quality underlying assets in order to mitigate the market risks and strengthen the control of collaterals through tailor-made structures.

For the year ended 31 December 2018, interest income from loans and advances was HK$79.6 million, representing a substantial increase of approximately121.3% as compared to HK$36.0 million in 2017. Proprietary trading income was HK$587.5 million which represented a significant increase of approximately 62.7% from HK$361.1 million in 2017.

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

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | ***HK$' million*** | *%* | *HK$' million* | *%* |
| Fixed income securities | **3,699.5** | **57.0** | 5,241.0 | 72.0 |
| Bonds | **1,750.7** | **27.0** | 3,119.2 | 42.9 |
| Preference shares | **1,891.4** | **29.1** | 2,062.3 | 28.3 |
| REIT(s) | **57.4** | **0.9** | 59.5 | 0.8 |
| Equity investments | **159.2** | **2.4** | 1.6 | 0.0 |
| Equity linked loan | **440.3** | **6.8** | – | – |
| Funds | **2,192.3** | **33.8** | 2,036.8 | 28.0 |

***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 overseas markets. In 2018, we were awarded a number of top 10 teams in "Asiamoney" Institutional Poll, "Best Research Team" by Phoenix New Media and "Chief Economist of the Year" by BRIC forum. As at 31 December 2018, our research team was composed of more than 40 strategic, industry analysts and professional staff in Hong Kong, Beijing and Shanghai, covering around 150 companies listed in Hong Kong, Mainland China and New York across various sectors.

During the Year, our research team further enhanced its research capacity through a series of upgrade and optimization projects, which reinforced its leading position within the industry. The key enhancement projects included; the introduction of integrated research management system, which would further enhance the efficiency of our research report production; the strengthening of close collaboration with media in Hong Kong and Mainland China, essentially achieving full coverage in mainstream media for our research reports, thereby promoting the overall image of the Company.

**Financial Review**

***Financial performance***

For the year ended 31 December 2018, the Group's total revenue and other income was approximately HK$1,484.3 million, representing an increase of approximately 21.6% over HK$1,220.5 million in 2017.

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

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | ***HK$'million*** | *%* | *HK$'million* | *%* |
| Brokerage | **186.3** | **12.6** | 208.5 | 17.1 |
| Corporate finance and underwriting | **59.9** | **4.0** | 155.2 | 12.7 |
| Asset management and advisory | **82.0** | **5.5** | 101.0 | 8.3 |
| Margin financing | **417.5** | **28.1** | 333.7 | 27.3 |
| Investment and loans | **690.9** | **46.6** | 405.0 | 33.2 |
| Others | **47.7** | **3.2** | 17.1 | 1.4 |
| Total | **1,484.3** | **100.0** | 1,220.5 | 100.0 |

The Group's profit for the year ended 31 December 2018 was approximately HK$411.0 million, representing an increase of approximately 1.9% over HK$403.5 million in 2017.

***Operating expenses***

Operating expenses and finance costs for the year ended 31 December 2018 amounted to HK$1,061.9 million (2017: HK$785.4 million), an analysis of which is listed below:

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| | ***HK$'million*** | *%* | *HK$'million* | *%* |
| Commission and brokerage expenses | **53.0** | **5.0** | 75.2 | 9.6 |
| Finance costs | **352.2** | **33.2** | 133.0 | 16.9 |
| Staff costs | **361.7** | **34.1** | 276.8 | 35.3 |
| Depreciation | **8.8** | **0.8** | 8.7 | 1.1 |
| Other operating expenses | **306.9** | **28.9** | 211.3 | 26.9 |
| Change in impairment allowance | **(20.7)** | **(2.0)** | 80.4 | 10.2 |
| Total | **1,061.9** | **100.0** | 785.4 | 100.0 |

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

Finance costs increased by 164.8% due to the upward adjustment of the base rate and the increase in monthly average of investment and loan balances.

Staff costs increased by 30.7% as a result of investment in human resources.

Depreciation was relatively stable.

Other operating expenses increased by 45.2% mainly due to investing administrative 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 31 December 2018 decreased by HK$1,276.3 million to HK$594.0 million (31 December 2017: HK$1,870.3 million).

The Group's net current asset increased by HK$8,072.8 million to approximately HK$9,351.3 million as at 31 December 2018 from HK$1,278.5 million as at 31 December 2017. The current ratio, being the ratio of current assets to current liabilities, was approximately 6.4 times as at 31 December 2018 (31 December 2017: 1.1 times).

As at 31 December 2018, the Group had borrowings of HK$6,423.9 million (31 December 2017: HK$10,068.2 million) while the subordinated loans from the ultimate holding company amounted to HK$1,000.0 million (31 December 2017: HK$1,000.0 million).

As at 31 December 2018, the Group's gearing ratio was 118.3% (31 December 2017: 174.0%), 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 maximize returns.

### *Material Acquisitions and Disposals*

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

### *Significant Investments Held*

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

### *Charges on Group Assets*

As at 31 December 2018, there was no charge on Group assets (31 December 2017: HK$430.4 million).

### *Capital Commitments*

As at 31 December 2018, the Group had no significant capital commitment.

### *Employees and Remuneration Policies*

As at 31 December 2018, the Group had a total of 329 employees. Total staff costs amounted to approximately HK$361.7 million for the year ended 31 December 2018.

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*

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 an investment portfolio had been below the guaranteed return and the Group has paid the client HK$840,000 equivalent of guarantee fee as "other operating expense" to fulfill the guarantee provided.

***Use of Proceeds***

The net proceeds from the Listing in 2017 after deducting underwriting fees and commissions and expenses in connection with the Listing, were approximately HK$1,879.2 million. As at 31 December 2018, the Company utilised approximately 91.6% 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 5 years.

An analysis of the application/intended application and utilisation of the net proceeds from the Listing as at 31 December 2018 is set out below:

| **Application/Intended application** | **Net proceeds from the Listing** | **Utilised amount as at 31/12/2017** | **Utilised amount during the year** | **Utilised amount as at 31/12/2018** | **Unutilised amount** |
|---|---|---|---|---|---|
| | *(HK$'million)* | *(HK$'million)* | *(HK$'million)* | *(HK$'million)* | *(HK$'million)* |
| 1. Expand margin financing business | 845.7 | 845.7 | – | 845.7 | – |
| 2. Expand asset management and advisory business | 281.9 | 109.7 | 172.2 | 281.9 | – |
| 3. Expand investment and loans business | 187.9 | 187.9 | – | 187.9 | – |
| 4. Develop IT infrastructure and internal control systems | 187.9 | 3.3 | 55.9 | 59.2 | 128.7 |
| 5. Attract and retain talent as well as optimizing human resources structure | 187.9 | 33.5 | 124.5 | 158.0 | 29.9 |
| 6. Working capital and general corporate purposes | 187.9 | 187.9 | – | 187.9 | – |
| Total | 1,879.2 | 1,368.0 | 352.6 | 1,720.6 | 158.6 |

## OUTLOOK AND STRATEGY

After the synchronized global growth in 2017, the global growth pattern in 2018 started to diverge and decelerate, and hence will affect the growth expectations for 2019. In the US, the normalization of monetary policy will add uncertainties to the US financial markets after a decade of prosperity, and hence affect the corresponding growth expectation; the EU is confronted with economic and financial challenges; Brexit will have long-term impact on the UK economy; and Japan is caught in the middle of global trade friction. Emerging markets continue to diverge, with some experiencing financial risks. In summary, many of these uncertainties in a complex environment are known, but the consequences are unknown. We must be on high alert for black swan and grey rhino events and the consequences of such. The uncertainties will likely slow down global economic growth, and challenge companies' earnings growth. In 2019, it is predicted that the volatility of the market will continue. Despite these headwinds that we are facing, China remains the world's growth stabilizer, and is predicted to achieve approximately 6% growth in 2019, after series of policy fine-tuning.

Looking ahead to 2019, policy support will be strengthened, as economic activities have slowed down. The three of China's balance sheets is leveraged, but not yet breaking. As such, we see room for leverage to be added or shifted between public and private sectors. Stimulus will still work, albeit with diminishing marginal efficacy. If the trade disputes worsens, policy responses will be strengthened in kind. Further RRR cuts, interest rate and tax cuts, lending under window guidance, relaxed property curbs, as well as tweaking of the supply-side reform are possible. Further opening of the access to China's immense market for foreign companies will also be in the cards.

Being the international flagship of the BOCOM Group, the Group is committed to creating a large and vibrant international integrated financial services institution with PRC background in the region. Looking forward to the year ahead despite the complicated and constantly changing market environment, we will see a series of new opportunities including structural adjustment, new energy and technology innovation. The Group will adhere to the strategy of "dealing changes with stability, making improvement with innovation", further expand new business and improve products and services, continuously strengthen the financial technology and improve our operation, with greater effort on ongoing review of and prudent internal control so as to balance the risks and returns. The Group will strive to take the path of high-quality development, establish an integrated wealth management bank and realise the balanced development of scale, quality and efficiency. The Group will assist domestic mainland enterprises to go aboard, expand and prosper, and at the same time, we will also, offer a range of capital market services and products. The Group strives to create bigger values for clients and Shareholders.

## FINAL DIVIDEND

The Directors recommended the payment of a final dividend of HK$0.08 per Share to Shareholders whose names appear on the register of members of the Company on 21 June 2019. Subject to the approval of the Shareholders at the annual general meeting of the Company, the proposed final dividend is expected to be paid on or about 5 July 2019.

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

The register of members of the Company will be closed on 21 June 2019, for the purpose of determining the entitlements of the Shareholders to the proposed final dividend during which period no transfer of the Shares may be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 20 June 2019. Shares of the Company will be traded ex-dividend as from 19 June 2019.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

## 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. During the year ended 31 December 2018, with the exception of code provision A.2.1 of the Corporate Governance Code, 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, in effect, assume the responsibilities of the Chief Executive of the Company and the above arrangement can help improve the efficiency of the decision-making and execution process of the Company. The Company has put in place an appropriate check-and-balance mechanism through the Board and the Independent Non-executive Directors. In light of the above, the Board considers that the deviation from Code Provision A.2.1 of the Corporate Governance Code is appropriate in the circumstances of the Company.

## 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 during the year ended 31 December 2018 in response to specific enquiry made by the Company.

## REVIEW OF ANNUAL 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 internal control and financial reporting matters including the review of the consolidated financial results of the Group for the year ended 31 December 2018.

The Audit and Risk Management Committee comprises of two Independent Non-executive Directors, Mr. LIN Zhijun and Mr. TSE Yung Hoi and a Non-executive Director, Ms. LIN Zhihong.

## SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 of the Group as set out in the preliminary announcement have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

## PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.bocomgroup.com). The 2018 annual report containing all the information required by the Listing Rules will be despatched to Shareholders and available on the above websites in due course.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 14 June 2019. The notice of annual general meeting and a circular to Shareholders, which sets out details of the business to be conducted at the annual general meeting, will be sent out together with the 2018 annual report.

## CLOSURE OF REGISTER OF MEMBERS FOR ENTITLEMENT TO ATTEND AND VOTE AT ANNUAL GENERAL MEETING

The register of members of the Company will be closed from 11 June 2019 to 14 June 2019 (both dates inclusive), for the purpose of determining the entitlements of the Shareholders to attend and vote at the forthcoming annual general meeting, during which period no transfer of Shares will be registered. In order to qualify to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 10 June 2019.

## DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

| | |
|---|---|
| "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 Group" | BOCOM and its subsidiaries (excluding the Group) |
| "BOCOM International (Shanghai)" | BOCOM International (Shanghai) Equity Investment Management Company Limited (交銀國際(上海)股權投資管理有限公司), a company incorporated in the PRC with limited liability on 25 October 2010 and a subsidiary of the Company |
| "BOCOM International (Shenzhen)" | BOCOM International Equity Investment Management (Shenzhen) Company Limited (交銀國際股權投資管理(深圳)有限公司), a company incorporated in the PRC with limited liability on 3 February 2016, a subsidiary of BOCOM International Asset Management Limited and an indirect subsidiary of the Company |
| "BRIC" | Brazil, Russia, India and China |

| | |
|---|---|
| "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 |
| "EU" | the European Union |
| "Group" or "we" or "us" | the Company and its subsidiaries |
| "HKD" or "HK$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Listing" | listing of the Shares on the Main Board of the Stock Exchange |
| "Listing Date" | 19 May 2017, on which the Shares are first listed on the Stock Exchange and from which dealings in the Shares on the Stock Exchange commenced |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended, supplemented or otherwise modified from time to time) |
| "Model Code" | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| "PRC" | People's Republic of China |
| "Prospectus" | the prospectus of the Company dated 5 May 2017 |
| "Reporting Period" or "Year" | the year ended 31 December 2018 |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "RRR" | requirement reserve ratio |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |

| | |
|---|---|
| "Share(s)" | ordinary share(s) in the capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "UK" | the United Kingdom |
| "US" | the United States of America |
| "USD" or "US$" | United States dollars, the lawful currency of the United States |

By order of the Board
**BOCOM International Holdings Company Limited**
**TAN Yueheng**
*Chairman and Executive Director*

Hong Kong, 26 March 2019

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