Report of the Directors and Audited Financial Statements

BOCI ASIA LIMITED
中銀國際亞洲有限公司

31 December 2018

BOCI ASIA LIMITED
中銀國際亞洲有限公司

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BOCI ASIA LIMITED
中銀國際亞洲有限公司

REPORT OF THE DIRECTORS

The directors of BOCI Asia Limited (the "Company") and its subsidiaries (collectively, the "Group") have pleasure in submitting their report together with the audited consolidated financial statements for the year ended 31 December 2018.

Principal activities

The Company is licensed for dealing in securities and advising on corporate finance under the Hong Kong Securities and Futures Ordinance. Its principal activities are the provision of corporate finance services, sales and trading of securities and other financial instruments.

The principal activities of the subsidiaries are set out in note 1 to the consolidated financial statements.

Results and appropriations

The results of the Group for the year are set out in the consolidated income statement on page 7.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2018 (2017: Nil).

Share issued

There were no movements in the Company's share capital during the year.

Directors

The directors of the Company during the year and up to the date of this report are:

Leung Yiu Kei	
Chen Xiaolu	
Wang Jun	
Bian Fang	(resigned on 16 January 2018)
Lee Kin Man	
Mak Chi Kin	(resigned on 1 February 2018)
Ng Meng Hua	
Ma Shu Ting Gary	
Qian Feng	(appointed on 1 December 2018)
Ho Yui Kwong Kenny	(resigned on 1 December 2018)

Other than the directors set out above, the directors of the Company's subsidiaries during the year and up to the date of this report are:

Kung Chun Hung Ronnie#	Chan Man	Ng Oliver Tse Kuen	Wang Zhongze
Wong Wai Kwan Anna	Lau Chi Sing*	Cao Yuanzheng	Li Tong
Mak Shiu Ki	Lie Kong Sang	Lam Kwong Siu	BOCI Secretaries Limited
Chua Alvin Cheng-Hock	Ip Sio Kai	Tang Fong Chai Francis	Cheng Manjiang#

appointed during the year and up to the date of this report
* resigned/retired during the year and up to the date of this report

In accordance with the Company and its subsidiaries' articles of association, all directors retire by rotation and, being eligible, offer themselves for re-election.

Donations
The Group did not make any donation for charitable or other purpose during the year (2017: Nil).

Permitted indemnity provision
Every director of the Company shall be indemnified against all liabilities incurred by him/her to the extent permitted by the Companies Ordinance. The immediate holding company, BOC International Holdings Limited, has maintained insurance for the benefit of directors against liability.

Directors' interests
No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, any of its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the directors or a connected entity of directors and chief executives of the Company (including their spouse and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Management contracts
The Company has an agreement with its immediate holding company, BOC International Holdings Limited, under which the immediate holding company provides administration and support services to the Company in return for a fee which is agreed and reviewed on an annual basis. This agreement can be terminated by either party giving not less than one month's written notice. In addition, the Company entered into an agreement with its fellow subsidiary, BOCI Leveraged & Structured Finance Limited, under which the Company provides administration and support services to the fellow subsidiary in return for a fee which is agreed and reviewed on an annual basis.

The Company has agreements with its subsidiaries, BOCI Research Limited and BOCI Securities Limited respectively, under which the subsidiaries provide research and advisory services to the Company in return for a fee, which is agreed and reviewed on an annual basis. These agreements can be terminated by either party giving not less than one month's written notice.

The Company has an agreement with its subsidiary, BOCI Securities Limited, under which the subsidiary provides settlement services in return for a fixed fee on transaction basis. This agreement can be terminated by either party giving not less than one month's written notice.

The Company has an intra-group arrangement agreement with its immediate holding company, BOC International Holdings Limited, under which the Company transfers its payment obligations or indebtedness liabilities to the immediate holding company. The immediate holding company is entitled to set off payments, sums and/or liabilities owed by it to any subsidiaries against any payments, sums and/or liabilities owed to it by any subsidiaries.

REPORT OF THE DIRECTORS (continued)

Auditors
The consolidated financial statements have been audited by Ernst & Young who retire and, being eligible, offer themselves for re-appointment.

ON BEHALF OF THE BOARD

Leung Yiu Kei
Director
Hong Kong
29 April 2019

Ernst & Young
22/F, CITIC Tower
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Central, Hong Kong

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INDEPENDENT AUDITOR'S REPORT
To the members of BOCI Asia Limited
中銀國際亞洲有限公司
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of BOCI Asia Limited (the "Company") and its subsidiaries (the "Group") set out on pages 7 to 110 which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") and with reference to Practice Note 820 (Revised), *The Audit of Licensed Corporations and Associated Entities of Intermediaries* issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

The directors of the Company are responsible for the other information. The other information comprises the information included in the report of the directors.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

EY 安永

INDEPENDENT AUDITOR'S REPORT (continued)
To the members of BOCI Asia Limited
中銀國際亞洲有限公司
(Incorporated in Hong Kong with limited liability)

Responsibilities of the directors for the consolidated financial statements

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

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

In addition, the directors are required to ensure that the consolidated financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. In addition, we are required to obtain reasonable assurance about whether the financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT (continued)
To the members of BOCI Asia Limited
中銀國際亞洲有限公司
(Incorporated in Hong Kong with limited liability)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on matters under the Hong Kong Securities and Futures (Keeping of Records) Rules and Hong Kong Securities and Futures (Accounts and Audit) Rules of the Hong Kong Securities and Futures Ordinance

In our opinion, the consolidated financial statements are in accordance with the records kept under the Hong Kong Securities and Futures (Keeping of Records) Rules and satisfy the requirements of the Hong Kong Securities and Futures (Accounts and Audit) Rules.

Ernst & Young

Certified Public Accountants
Hong Kong
29 April 2019

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
Revenue	5a	3,076,072,014	2,930,562,270
Trading gain, net	5b	16,890,814	846,209,999
Other income	6	224,732,406	199,478,903
Total income		3,317,695,234	3,976,251,172
Commission and clearing expenses		(757,070,715)	(747,046,110)
Staff costs	7	(650,503,039)	(710,690,256)
Other operating expenses		(1,025,667,113)	(975,213,139)
		(2,433,240,867)	(2,432,949,505)
Finance costs	11	(261,247,179)	(153,288,155)
Operating profit before impairment on assets		623,207,188	1,390,013,512
Net credit/(charge) for impairment on assets	9	446,551	(2,830,325)
Profit before taxation	10	623,653,739	1,387,183,187
Income tax expense	12	(40,577,137)	(121,924,124)
Profit for the year		583,076,602	1,265,259,063
Attributable to:			
Equity holders of the Company		583,076,602	1,265,259,063

The accompanying notes form an integral part of these consolidated financial statements.

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$	2017 HK$
Profit for the year	583,076,602	1,265,259,063
Other comprehensive income	-	-
Total comprehensive income for the year	583,076,602	1,265,259,063
Attributable to:		
Equity holders of the Company	583,076,602	1,265,259,063

The accompanying notes form an integral part of these consolidated financial statements.

BOCI ASIA LIMITED

中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$	2017 HK$
NON-CURRENT ASSETS			
Plant and equipment	13	-	10,695
Intangible assets	14	49,715,218	49,715,218
Available-for-sale financial assets	16	-	355,000
Financial assets at fair value through other comprehensive income	17	354,869	-
Statutory deposits and other assets		77,680,449	109,818,829
Deferred income tax assets	15	1,148,349	1,127,528
Total non-current assets		128,898,885	161,027,270
CURRENT ASSETS			
Financial assets at fair value through profit or loss	18	534,237,232	1,770,809,600
Held-to-maturity financial assets	19	-	149,665,079
Debt instruments at amortised cost	20	249,289,837	-
Derivative financial instruments	21	156,840,962	377,988,729
Loans and receivables	22	20,605,270,946	25,484,572,569
Amounts due from the immediate holding company	25	1,952,453,528	1,282,332,331
Amounts due from fellow subsidiaries	24	5,713	-
Amounts due from a related company	25	-	31,570,338
Cash and balances with banks	23	7,104,186,867	8,398,565,436
Taxation recoverable		90,074,895	4,897,800
Total current assets		30,692,359,980	37,500,401,882
CURRENT LIABILITIES			
Subordinated loans from the immediate holding company	25	2,500,000,000	2,500,000,000
Amounts due to the immediate holding company	25	5,226,964,225	9,946,729,148
Amounts due to fellow subsidiaries	24	15,038,712	2,249,932
Amounts due to a related company	25	5,692,865	5,991,700
Accounts and other payables	26	5,825,243,148	7,895,275,277
Deposits from customers	27	7,486,004,060	7,824,397,622
Derivative financial instruments	21	193,743,871	541,060,990
Financial liabilities at fair value through profit or loss	28	125,201,087	19,100,250
Taxation payable		58,045,059	116,293,094
Total current liabilities		21,435,933,027	28,851,098,013
NET CURRENT ASSETS		9,256,426,953	8,649,303,869
TOTAL ASSETS LESS CURRENT LIABILITIES		9,385,325,838	8,810,331,139

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2018

	Notes	2018 HK$	2017 HK$
TOTAL ASSETS LESS CURRENT LIABILITIES		9,385,325,838	8,810,331,139
NON-CURRENT LIABILITIES			
Accounts and other payables	26	34,037,084	41,567,753
Total non-current liabilities		34,037,084	41,567,753
Net assets		9,351,288,754	8,768,763,386
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	2,000,000,000	2,000,000,000
Reserve for fair value changes of available-for-sale financial assets		-	15,000
Reserve for fair value change of financial assets at fair value through other comprehensive income		15,000	-
Retained earnings		7,351,273,754	6,768,748,386
Total equity		9,351,288,754	8,768,763,386

Leung Yiu Kei
Director

Lee Kin Man
Director

The accompanying notes form an integral part of these consolidated financial statements.

BOCI ASIA LIMITED
中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Company				
	Share capital HK$	Reserve for fair value changes of available-for-sale financial assets HK$	Reserve for fair value change of financial assets at fair value through other comprehensive income HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2017	2,000,000,000	15,000	-	5,503,489,323	7,503,504,323
Total comprehensive income for the year	-	-	-	1,265,259,063	1,265,259,063
Balance at 31 December 2017	2,000,000,000	15,000	-	6,768,748,386	8,768,763,386
Balance at 1 January 2018	2,000,000,000	15,000	-	6,768,748,386	8,768,763,386
On adoption of HKFRS 9	-	(15,000)	15,000	(551,234)	(551,234)
As restated at 1 January 2018 under HKFRS 9	2,000,000,000	-	15,000	6,768,197,152	8,768,212,152
Total comprehensive income for the year	-	-	-	583,076,602	583,076,602
Balance at 31 December 2018	2,000,000,000	-	15,000	7,351,273,754	9,351,288,754

The accompanying notes form an integral part of these consolidated financial statements.

BOCI ASIA LIMITED

中銀國際亞洲有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$	2017 HK$
Cash flows from operating activities			
Net cash (used in)/generated from operating activities	30	(1,613,083,087)	993,692,713
Cash flows from investing activities			
Purchase of held-to maturity financial assets	19	-	(499,154,120)
Proceeds from redemption of held-to-maturity financial assets	19	-	500,000,000
Purchase of debt instruments at amortised cost	20	(547,919,861)	-
Proceeds from redemption of debt instruments at amortised cost	20	450,000,000	-
Net cash (used in)/generated from investing activities		(97,919,861)	845,880
Net (decrease)/increase in cash and cash equivalents		(1,711,002,948)	994,538,593
Cash and cash equivalents at beginning of year		7,414,541,705	6,420,003,112
Cash and cash equivalents at end of year		5,703,538,757	7,414,541,705
Analysis of balances of cash and cash equivalents			
Cash at banks and in hand	23	1,078,303,887	2,794,961,248
Short-term bank deposits and placements with banks with original maturity within three months	23	4,625,234,870	4,619,580,457
Cash and cash equivalents at end of year		5,703,538,757	7,414,541,705

The accompanying notes form an integral part of these consolidated financial statements.

1. CORPORATE AND GROUP INFORMATION

BOCI Asia Limited (the "Company") is a limited liability company incorporated in Hong Kong. The address of its registered office is 26/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

The Company and its subsidiaries (the "Group") provides a broad range of investment banking services for a diverse group of domestic and international companies, financial institutions, government agencies and individuals through its subsidiaries and affiliates in Hong Kong. The Group engages in the provision of banking services, underwriting and financial advisory, sales and trading of securities and other financial instruments.

The immediate holding company is BOC International Holdings Limited, which is incorporated in Hong Kong. The Company is subject to the control of the State Council of the People's Republic of China Government through China Investment Corporation and its wholly-owned subsidiary, Central Huijin Investment Ltd.

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 29 April 2019.

Information about subsidiaries
Particulars of the Company's subsidiaries as at 31 December 2018 are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued share capital	Interest held
Bank of China International Limited 中銀國際有限公司	Hong Kong	Banking and related financing services	HK$1,000,000,000	100%#
BOCI Research Limited 中銀國際研究有限公司	Hong Kong	Research	US$130,000	100%#
BOCI Securities Limited 中銀國際證券有限公司	Hong Kong	Securities dealing and brokerage	HK$406,000,000	100%#
BOCI Secretaries Limited 中銀國際秘書有限公司	Hong Kong	Nominees services	HK$6,000	100%
Modenia Limited	Hong Kong	Nominees services	HK$100	100%

Shares held directly by the Company

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, except for the change in accounting policies and disclosures as disclosed in note 2.1(a) below.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial assets at fair value through other comprehensive income, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 33 to the consolidated financial statements.

(a) Changes in accounting policies and disclosures

The Group has adopted the following new and revised HKFRSs for the first time for the current year's consolidated financial statements.

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Changes in accounting policies and disclosures (continued)

The nature and the impact of each amendment is described below:

- Hong Kong Financial Reporting Standard 9 ("HKFRS 9") Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39. The nature and effect of the changes as a result of the adoption of the new standard are described below and the Group's revised accounting policies are set out in note 2.7 below. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The impacts mainly relate to the classification and measurement and the impairment requirements and are summarised as follows:

  (i) Changes to classification and measurement

  The Group has adopted HKFRS 9 from 1 January 2018 and the effect of the adoption is not considered to be significant on the classification and measurement of its financial assets as the Group continues measuring at fair value all financial assets currently held at fair value. Debt instruments have been reclassified from available-for-sale ("AFS") and held-to-maturity ("HTM") to financial assets at fair value through other comprehensive income ("FVOCI") and financial assets at amortised cost respectively as the investments are intended to be held for the foreseeable future. Gains and losses recorded in other comprehensive income for any equity investments cannot be recycled to profit or loss when the investments are derecognised.

  The accounting for financial liabilities remains largely the same as it was under Hong Kong Accounting Standard 39 ("HKAS 39"), except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at fair value through profit or loss. Such movements are presented in the consolidated statement of comprehensive income with no subsequent reclassification to the consolidated income statement.

  The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

  For the impact on the shareholders' funds from the change in classification and measurement, please refer to note 2.1.1 to the consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Changes in accounting policies and disclosures (continued)

(ii) Changes to the impairment calculation

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss ("ECL") model either on a twelve-month basis or a lifetime basis. ECL will be assessed using an approach which classifies these financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile in each instance.

- A financial asset is classified under Stage 1 if it was not credit-impaired upon origination and there has not been a significant increase in its credit risk since inception. A provision for twelve-month ECL is required.
- A financial asset is classified under Stage 2 if it was not credit-impaired upon origination but has since suffered a significant increase in credit risk. A provision for life-time ECL is required.
- A financial asset which has been credit-impaired with objective evidence of default is classified under Stage 3. The assessed ECL is expected to be unchanged from the existing individual allowances taken for such assets.

Based on the Group's exposures of financial assets as at 1 January 2018, the provision for impairment increased by HK$666,498 upon the initial adoption of the standard.

- To reflect the differences between HKFRS 9 and HKAS 39, HKFRS 7 *Financial Instruments: Disclosures* was updated and the Group has adopted it, together with HKFRS 9, for the year beginning 1 January 2018. Changes include transition disclosures as shown in note 2.1.1, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in note 2.7.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Changes in accounting policies and disclosures (continued)

- Hong Kong Financial Reporting Standard 15 ("HKFRS 15") and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.16 to the consolidated financial statements. The Group adopted HKFRS 15 from 1 January 2018 and adopted the full retrospective approach. The standard does not have significant impact on the consolidated financial statements of the Group.

- HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's consolidated financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
HKFRS 16	*Leases*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	*Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

- Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

- Amendments to HKFRS 9 allow financial assets with prepayment features that permit or require either the borrower or the lender to pay or receive reasonable compensation for the early termination of a contract to be measured at amortised cost or at fair value through other comprehensive income, rather than at fair value through profit or loss. The amendments clarify that a financial asset passes the "solely payments of principal and interest on the principal amount outstanding" criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for that early termination. The Group expects to adopt these amendments from 1 January 2019 and to apply the exemption from restating comparative information of prior periods. Any difference between the previous carrying amount and the adjusted carrying amount will be recognised in the opening balance of equity. The amendments do not apply to the Group as the Group does not have any debt instruments with prepayment features along with compensation for early termination. In addition, as clarified in the amendments to the basis for conclusions on HKFRS 9, the gain or loss arising on modification of a financial liability that does not result in derecognition (calculated by discounting the change in contractual cash flows at the original effective rate) is immediately recognised in profit or loss. As there is no specific relief on this clarification, this requirement shall be applied retrospectively. The Group's current accounting policy is consistent with this clarification and therefore the adoption of the amendments is not expected to have any impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

- Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

- HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases - Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of approximately HK$49 million and lease liabilities of approximately HK$49 million will be recognised at 1 January 2019. The Company expects to adopt HKFRS 16 from 1 January 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Issued but not yet effective Hong Kong Financial Reporting Standards (continued)

- HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's consolidated financial statements.

- Annual Improvements to HKFRSs 2015-2017 Cycle issued in February 2018 sets out amendments to a number of HKFRSs. Details of the amendments that are relevant to the Group are as follows.

  - The amendment to HKAS 12 clarifies that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. The amendments must be applied for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted and must be disclosed. The amendments must first be applied to income tax consequences of dividends recognised on or after the beginning of the earliest comparative period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1.1 Transition disclosures

The following tables set out the impact of adopting HKFRS 9 on the consolidated statement of financial position, and retained earnings including the effect of replacing HKAS 39's incurred loss calculations with HKFRS 9's ECLs.

A reconciliation between the carrying amounts under HKAS 39 to the balances reported under HKFRS 9 as of 1 January 2018 is as follows:

		As at 31 December 2017 under HKAS 39				As at 1 January 2018 under HKFRS 9	
HK$	**Ref**	**Category**	**Amount**	**Re-classification**	**Re-measurement**	**Amount**	**Category**
Financial assets							
Cash and balances with banks		L&R[1]	8,398,565,436	-	(103,247)	8,398,462,189	AC[2]
Financial assets at fair value through profit or loss		FVPL[3]	1,770,809,600	-	-	1,770,809,600	FVPL
Derivative financial instruments		FVPL	377,988,729	-	-	377,988,729	FVPL
Amounts due from the immediate holding company		L&R	1,282,332,331	-	-	1,282,332,331	AC
Amounts due from a related company		L&R	31,570,338	-	-	31,570,338	AC
Loans and receivables		L&R	25,484,572,569	-	(550,311)	25,484,022,258	AC
Available-for-sale financial assets		AFS[4]	355,000	(355,000)	-	-	
To: Financial assets at fair value through other comprehensive income	*A*			*(355,000)*			
Financial assets at fair value through other comprehensive income			-	355,000	(42)	354,958	FVOCI[5]
From: Available-for-sale financial assets	*A*			*355,000*			
Held-to-maturity financial assets		HTM[6]	149,665,079	(149,665,079)	-	-	
To: Debt instruments at amortised cost	*B*			*(149,665,079)*			
Debt instruments at amortised cost			-	149,665,079	(12,898)	149,652,181	AC
From: Held-to-maturity financial assets	*B*			*149,665,079*			
Other assets		L&R	159,544,742	-	-	159,544,742	AC
Non-financial assets							
Tax recoverable			4,897,800	-	-	4,897,800	
Deferred tax assets			1,127,528	-	115,264	1,242,792	
Total assets			**37,661,429,152**	-	**(551,234)**	**37,660,877,918**	

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1.1 Transition disclosures (continued)

		HKAS 39				HKFRS 9	
HK$	Ref	Category	Amount	Re-classification	Re-measurement	Amount	Category
Financial liabilities							
Deposits from customers		AC	7,824,397,622	-	-	7,824,397,622	AC
Subordinated loans from the immediate holding company		AC	2,500,000,000	-	-	2,500,000,000	AC
Amounts due to the immediate holding company		AC	9,946,729,148	-	-	9,946,729,148	AC
Amounts due to fellow subsidiaries		AC	2,249,932	-	-	2,249,932	AC
Amounts due to a related company		AC	5,991,700	-	-	5,991,700	AC
Financial liabilities at fair value through profit or loss		FVPL	19,100,250	-	-	19,100,250	FVPL
Derivative financial instruments		FVPL	541,060,990	-	-	541,060,990	FVPL
Accounts and other payables		AC	7,936,843,030	-	-	7,936,843,030	AC
Non-financial assets							
Tax payable		AC	116,293,094	-	-	116,293,094	AC
Total liabilities			**28,892,665,766**	-	-	**28,892,665,766**	

[1]L&R: Loans and receivables
[2]AC: Amortised cost
[3]FVPL: Fair value through profit or loss
[4]AFS: Available-for-sale
[5]FVOCI: Fair value through other comprehensive income
[6]HTM Held-to-maturity

A As of 1 January 2018, the Group assessed its liquidity portfolio which had previously been classified as available-for-sale financial assets. The Group concluded that, these instruments are managed within a business model of collecting contractual cash flows and selling the financial assets. Accordingly, the Group has classified these investments as financial assets at fair value through other comprehensive income.

B As of 1 January 2018, the Group did not have any debt instruments that did not meet the SPPI criterion within its held-to-maturity portfolio. Therefore, it elected to classify all of these instruments as debt instruments measured at amortised cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1.1 Transition disclosures (continued)

The impact of transition to HKFRS 9 on reserves and retained earnings is, as follows:

HK$	Reserves and retained earnings
Retained earnings	
Closing balance under HKAS 39 (31 December 2017)	6,768,748,386
Re-measurement adjustments in relation to adopting HKFRS 9	(666,498)
Deferred tax in relation to the above	115,264
Opening balance under HKFRS 9 (1 January 2018)	6,768,197,152
Total change in equity due to adopting HKFRS 9	(551,234)

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 17, 20, 22 and 23 to the consolidated financial statements.

HK$	Impairment under HKAS 39 at 31 December 2017	Re-measurement	ECL under HKFRS 9 at 1 January 2018
Impairment allowance for:			
Loans and receivables (note 22)	43,481,966	550,311	44,032,277
Available-for-sale financial assets per HKAS 39/ financial assets at fair value through other comprehensive income under HKFRS 9 (note 17)	-	42	42
Held-to-maturity financial assets per HKAS 39/ debt instruments at amortised cost under HKFRS 9 (note 20)	-	12,898	12,898
Cash and balances with banks (note 23)	-	103,247	103,247
	43,481,966	666,498	44,148,464

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(i) the contractual arrangement with the other vote holders of the investee;
(ii) rights arising from other contractual arrangements; and
(iii) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for the subsidiaries. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the Company's and the Group's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in the consolidated statement of comprehensive income or consolidated income statement is also recognised in the consolidated statement of comprehensive income or consolidated income statement, respectively).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Plant and equipment

Plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation of plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, principally as follows:

Leasehold improvements	5 years
Furniture, fixtures and equipment	3 - 5 years
Electronic equipment	3 - 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other operating expenses in the consolidated income statement.

2.5 Intangible assets – goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is carried at cost less accumulated impairment loss and is tested annually for impairment. Impairment losses on goodwill are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Impairment of investment in subsidiaries and other non-financial assets

Assets other than financial assets and non-current assets/a disposal group classified as held for sale are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the investee concerned in the period the dividend is declared, or if the carrying amount of the relevant investment in the Company's statement of financial position exceeds the carrying amount in the consolidated statement of financial position of the investee's net assets including goodwill.

2.7 Financial assets and liabilities

2.7.1 Financial assets and liabilities (policies under HKFRS 9 applicable from 1 January 2018)

2.7.1.1 Amortised cost and effective interest rate

The amortised cost is the amount at which the financial asset or liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ("POCI") financial assets – assets that are credit-impaired (see definition in note 33) at initial recognition – the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liabilities is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.1 Financial assets and liabilities (policies under HKFRS 9 applicable from 1 January 2018) (continued)

2.7.1.2 Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Regular purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset.

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an ECL is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income ("FVOCI"), as described in note 33 to these consolidated financial statements, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

2.7.1.3 Classification and subsequent measurement

From 1 January 2018, the Group has adopted HKFRS 9 and classifies its financial assets in the following measurement categories: FVPL; FVOCI; or amortised cost.

Classification and subsequent measurement of financial assets depend on:

(i) the Group's business model for managing the asset; and

(ii) the cash flow characteristics of the asset.

Based on these factors, the Group classified its financial assets into one of the following measurement categories:

- **Amortised cost (debt instruments)**

  Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any ECL allowance recognised and measured as described in note 33 to these consolidated financial statements. Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.1 Financial assets and liabilities (policies under HKFRS 9 applicable from 1 January 2018) (continued)

2.7.1.3 Classification and subsequent measurement (continued)

- **FVOCI (debt instruments)**

  Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

  Gains and losses on these financial assets are never recycled to the consolidated income statement. Dividends are recognised as other income in the consolidated income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income.

- **FVPL**

  Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model.

  Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.1 Financial assets and liabilities (policies under HKFRS 9 applicable from 1 January 2018) (continued)

2.7.1.3 Classification and subsequent measurement (continued)

- **FVPL (continued)**

A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the consolidated income statement within "net trading gain" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in "net investment income". Interest income from these financial assets is recognised in profit or loss using the effective interest rate method.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the consolidated income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the consolidated income statement.

Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.1. Financial assets and liabilities (policies under HKFRS 9 applicable from 1 January 2018) (continued)

2.7.1.3 Classification and subsequent measurement (continued)

- **FVPL(continued):**

Business model assessment: the Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

The SPPI test: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the "SPPI test"). "Principal" for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. In making SPPI assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassified debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes should be infrequent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.2 Financial assets and liabilities (policies under HKAS 39 applicable before 1 January 2018)

2.7.2.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its investments at initial recognition.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-making. Derivatives, including separated embedded derivatives, are classified as held for trading.

A financial asset is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;

(ii) A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the financial assets and/or financial liabilities is provided internally to the management; or

(iii) The designation relates to financial instruments containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.2 Financial assets and liabilities (policies under HKAS 39 applicable before 1 January 2018) (continued)

2.7.2.1 Classification (continued)

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money or services directly to a debtor with no intention of trading the receivable. They are included in the consolidated statement of financial positions as current assets, except for maturities greater than 12 months after the end of reporting period which are classified as non-current assets as statutory deposits and other assets.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in market conditions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.2 Financial assets and liabilities (policies under HKAS 39 applicable before 1 January 2018) (continued)

2.7.2.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the consolidated income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement when the Group's right to receive payments is established.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in equity, until the financial asset is derecognised of or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income should be recognised in the consolidated income statement. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale financial assets are recognised in the consolidated income statement.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the securities and other changes in the carrying amount of the securities. The translation differences on monetary securities are recognised in the consolidated income statement. Translation differences on non-monetary securities are recognised in other comprehensive income.

The fair values of quoted investments are based on the current bid prices. If the market for a financial asset is not active or the security is unlisted, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.3 Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset.

When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value of the consideration received less directly attributable transaction costs. Fair value represents quoted prices if active market exists. When no active market exists, fair value is estimated by valuation techniques that are commonly used by market participants or dealer quotes.

2.7.4 Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

As described in note 2.1, the adoption of HKFRS 9 has fundamentally changed the Group's loan loss impairment method by replacing HKAS 39's incurred loss approach with a forward-looking ECL approach. From 1 January 2018, the Group records the allowance for ECL for debt instruments recorded at amortised cost or at FVOCI, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss, in this section all referred to as "financial instruments". Equity instruments are not subject to impairment under HKFRS 9.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.4 Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime basis), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the twelve months' expected credit loss (the twelve-month basis).

The twelve-month basis is the portion of the lifetime basis that represents the ECLs that result from default events on a financial instrument that are possible within the twelve months after the reporting date.

Both lifetime basis and twelve-month basis are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in note 33 to these consolidated financial statements.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in note 33 to these consolidated financial statements.

Based on the above process, the Group classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile in each instance:

- A financial asset is classified under Stage 1 if it was not credit-impaired upon origination and there has not been a significant increase in its credit risk since inception. A provision for twelve-month ECL is required.
- A financial asset is classified under Stage 2 if it was not credit-impaired upon origination but has since suffered a significant increase in credit risk. A provision for life-time ECL is required.
- A financial asset which has been credit-impaired with objective evidence of default is classified under Stage 3. The assessed ECL is expected to be unchanged from the existing individual allowances taken for such assets.

For financial assets for which the Group has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.5 Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

(a) Assets carried at amortised cost

A provision for impairment of loans and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within other operating expenses. When a loan or receivable is uncollectible, it is written off against the allowance account for trade receivables.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investment are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement.

Impairment losses recognised on equity instruments in the consolidated income statement are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in consolidated income statement, the impairment loss is reversed through the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.6 Financial liabilities

2.7.6.1 Classification and subsequent measurement

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

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the consolidated income statement.

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) The designation eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise from measuring the financial assets or financial liabilities or recognising the gains and losses on them on different bases;

(ii) A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the financial assets and/or financial liabilities is provided internally to the management; or

(iii) The designation relates to financial instruments containing one or more embedded derivative that significantly modifies the cash flow resulting from those financial instruments.

Financial liabilities at fair value through profit or loss, including structured notes issued embedded with certain derivatives, are designated as such at inception. Financial liabilities held for trading and those designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the consolidated income statement.

(b) Other financial liabilities

Other financial liabilities are carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated income statement over the period of the other financial liabilities using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Financial assets and liabilities (continued)

2.7.6 Financial liabilities (continued)

2.7.6.2 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the profit or loss.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.9 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as finance costs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognised immediately in the consolidated income statement.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.12 Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period.

Employee entitlements to sick leave and maternity leave or paternity leave are not recognised until the time of leave.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Employee benefits (continued)

(b) Bonus plans

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

The Group recognises a liability and an expense for bonuses, with reference to the performance of the Group. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation. Liabilities for bonus plans that are expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled.

Bonus payments that are not due wholly within 12 months after the end of the year in which the employees render the related services are included as other long-term employee benefits. The long-term employee benefits are measured at the present value of the expected payments which also reflects the possibility that some employees may leave without receiving the bonus.

Any adjustments that reflect the estimation of bonus forfeited by the employees are recognised to the consolidated income statement during the year.

(c) Pension obligations

The Group offers a mandatory provident fund scheme and a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Group.

The Group's contributions to the mandatory provident fund scheme and the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

2.13 Income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the end of reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Income tax (continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not be reversed in the foreseeable future.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Deferred tax related to fair value re-measurement of available-for-sale financial assets, which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the consolidated income statement together with the deferred gain or loss.

2.14 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the consolidated income statement on a straight-line basis over the period of the lease.

2.15 Dividends

Dividends recognised in the consolidated financial statements represent interim dividend paid and final dividend for the year declared and approved by the members.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Revenue

Revenue recognition (applicable from 1 January 2018)

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

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Brokerage commission is recognised on a point-in-time basis when the relevant services are rendered.

Underwriting and placement commission is recognised on a point-in-time basis when the underwriting and placement arrangement has been completed.

Corporate finance income is recognised over time based on work-in-progress method. Advances received are included in deferred revenue.

Revenue from other sources
Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounting at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Dividend income from listed investments is recognised on a point-in-time basis when the right to receive payment is established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 Revenue (continued)

Revenue recognition (applicable before 1 January 2018)
Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

Revenue which also represents the turnover, comprises (i) brokerage commission, (ii) underwriting and placement commission, (iii) corporate finance and loan syndication fees, (iv) dividend income from financial assets held for trading, and (v) interest income from bank deposits and loans to customers.

Brokerage commission is recognised on a trade-date basis.

Underwriting and placement commission is recognised when the services related to the underlying transactions are rendered in accordance with the terms of the underlying agreements and mandates.

Corporate finance and loan syndication fees are recognised when services are rendered.

Dividend income is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Fiduciary activities

Trust accounts maintained by the Group to hold clients' monies are treated as the off-balance sheet items and disclosed in notes to the consolidated financial statements.

2.19 Securities borrowing and lending

Securities may be lent under an agreement to return them by the borrower. Such securities are retained on the consolidated statement of financial position when substantially all the risks and rewards of ownership remain with the Group, and the counterparty liability is included separately on the consolidated statement of financial position when cash collateral is received.

Similarly, where the Group borrows securities under an agreement to return them to the lender but does not acquire the risks and rewards of ownership, the cash consideration paid is treated as a collateral placed to the lender, as an account receivables in the consolidated statement of financial position.

Securities borrowed are not recognised in the consolidated financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as financial liabilities at fair value through profit or loss and any subsequent gain or loss included in trading gain/(loss), net.

2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee ("EC") of the Group that makes key and strategic decision.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person
- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:
- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of risks: market risk, credit risk, operational risk, liquidity risk, legal risk, compliance risk, reputational risk and strategic risk.

The Company is a wholly owned subsidiary of BOC International Holdings Limited (collectively refer to "BOCI Group" in this section). BOCI Group's risk management organisation and policies extend to cover the Group as there is no separate risk management organisation and policies for the Group. The risk management policy in BOCI Group applies to the Group as well.

Risk governance structure
The Group establishes a comprehensive organisation structure with both decision-making and control functions. The structure comprises three basic tiers: (1) the Shareholder; (2) the Board of Directors ("Board"); and (3) the Senior Management as led by the Chief Executive Officer ("CEO").

Shareholder level
The immediate holding company is a wholly-owned subsidiary and also an investment banking arm of Bank of China Limited ("BOC"). BOC, as the shareholder, authorises the Board to lead the Company.

Board level
The Board of the immediate holding company ("Holdings' Board") is responsible for setting the fundamental strategic goals and risk vision of the Group. The Holdings' Board appoints the Risk Management Committee ("RMC"), Strategy Development Committee ("SDC") and the Audit Committee ("AC"), which assist the Board in overseeing the Group's risk management functions.

RMC is responsible for assisting the Holdings' Board in fulfilling their oversight responsibilities by providing guidance regarding the risk governance and the development of acceptable risk profile. RMC approves new business proposal and conducts regular review of major risk exposures and the approval of risk limits to ensure that the Group's risk-taking activities are consistent with its business strategy, capital structure, and risk tolerance.

SDC is responsible for providing a high level strategic decision-making and co-ordination forum for the Group and advising the Board on the Group's long-term development needs and goals. Also, it is responsible for ensuring that the Group's resources are well-used and overseeing the implementation status of the Company's strategic plans.

AC is responsible for assisting the Holdings' Board in fulfilling their oversight responsibilities by monitoring the entire risk management process. Additionally, it is responsible for ensuring the independence of the internal and external auditors.

3. FINANCIAL RISK MANAGEMENT (continued)

Management level
The EC is composed of the CEO, Deputy CEO, Chief Financial Officer, and heads of the major divisions. It operates on a partnership model to provide integrated executive leadership. Moreover, it is responsible for the appointment and operation of the Risk Control Committee ("RCC"), the Operating Committee ("OC"), the Commitment Committee ("CC") and the Investment Committee ("IC").

RCC, CC, OC and IC derive their decision-making authority from RMC and the EC. They consist of the Group's senior management, business heads and heads of the control and support units.

The RCC is responsible for overseeing the risk management process of the Group as follows:

- Managing exposures to market risk, credit risk, operational risk, financial and liquidity risk, legal risk, reputation and compliance risks;
- Evaluating and approving all risk management policies, and monitoring their implementation in accordance to the principles and policies established by the Board and the RMC, and under the guidance of the EC;
- Evaluating and approving internal risk limits and delegations;
- Supervising and coordinating risk management activities, reviewing the completeness and effectiveness of risk management infrastructures, and facilitating the building of risk culture;
- Monitoring overall risk exposure and organising investigations to any risk event that considers material;
- Evaluating and approving new product and new business proposals in accordance to the policies and authorities delegated by the Holdings' Board;
- Evaluating and approving significant transactions; and
- Undertaking any other duties assigned by the RMC of the Holdings' Board or the EC.

The RCC is chaired by the Deputy Chief Executive Officer and is composed of senior management of the major functional areas.

The CC is composed of senior management representing the business, compliance and support units. It is responsible for overseeing the Group's underwriting, distribution and financial advisory business activities.

The OC is responsible for assisting the EC:

- To analysis, coordinate, review cross department operational process and issues, improving the operational efficiency and effectiveness;
- To advise middle offices and back offices on operational collaboration and resources allocations;
- To oversight the middle and back offices operations, strengthening the cost control and improve the cost effectiveness;

3. FINANCIAL RISK MANAGEMENT (continued)

Management level (continued)

- To oversight the implementation of Business Continuity Plan;
- To review major process re-engineering and automation projects, and monitor their implementation; and
- To oversight operational risk management issues; and to resolve cross department disputes on operational matters.

The IC is composed of senior management, related business heads and head of risk management. It is responsible for overseeing the Group's principal investment business.

Risk control functions

The segregation of duties and the integrity of operating systems within the Group are two basic features of the Group's practice. Control and support units such as risk management, finance and treasury, legal and compliance, human resources, operations and information technology are independent of the business reporting lines. These units contribute to the Group's risk management system through their complementary reporting and control functions. The Risk Management Division ("RMD") evaluates and monitors the market and credit risk exposure on a regular basis. The RMD reports any risk issues and risk analysis on business proposals to RCC, RMC and the Holdings' Board. The Finance & Treasury Division ("FTD") evaluates and monitors the liquidity and market risks (i.e. interest rate and currency risk) of non-trading book.

3.1 Market risk

The Group takes on exposure to market risks, which is the risk that the market value or fair value of a financial instrument will fluctuate because of changes in market parameters. Market risks arise from open positions in interest rate, currency and equity products.

The Group's market risk mainly arises from its proprietary trading business, which comprises equity derivatives and fixed income trading units, and is regularly monitored by RMD (hereafter collectively refer to as "trading book" and refer to 3.1.1, 3.1.2, 3.1.3 and 3.1.4 for details on risk monitoring). The trading book in the Group mainly represents the financial positions classified as financial assets at fair value through profit or loss in the consolidated statement of financial position.

The remaining market risk of the Group arises from non-trading activities (hereafter collectively refer to as "non-trading book") and is managed by FTD. Non-trading book market risk generally arises from investment in available-for-sale debt securities held for liquidity purposes as well as investments in available-for-sale debt securities are restricted to high quality securities and subject to daily mark-to-market and monitoring. As of the end of the reporting periods, the Group's exposure to the non-trading book is insignificant to its operations.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.1 Value at risk and stress test

BOCI Group adopts the Value at Risk ("VaR") approach to derive quantitative measures for trading book market risks under normal market conditions. The Holdings' Board sets VaR limits on both equity derivatives and fixed income units that may be undertaken. BOCI Group monitors VaR separately for equity derivatives unit and fixed income unit and each on a group basis, therefore no separate VaR is prepared. BOCI Group's exposure to non-trading book is not considered to be significant and no VaR limit is set. Further, the VaR is prepared in BOCI Group as a whole and no separate VaR is prepared for the consolidated financial position in the Group.

VaR is an estimate of the maximum potential loss in a defined period under defined confidence level in normal market conditions. Diversification effects within and across portfolios are taken into account either explicitly through the use of analytical formulae with pre-determined correlations or implicitly through the use of historical simulations. BOCI Group calculates VaR using a 99% confidence level and a holding period of 1 day. However, the use of this approach does not prevent losses outside these limits in the event of more significant market movement.

BOCI Group performs back testing on a regular basis to assess the predictive power of the VaR calculations. Back testing involves comparing actual daily profit or loss with VaR estimates. BOCI Group will review the VaR model if the back testing does not show a satisfactory result.

Stress testing is used as a supplement to BOCI Group's VaR analysis. The Holdings' Board sets stress limits on both equity derivatives and fixed income desks that may be undertaken. Potential future stress loss is assessed using a number of hypothetical extreme market scenarios include the stress scenarios of different risk parameters such as equity level, volatilities, interest rate and credit spread. Stress scenarios are regularly reviewed to reflect a more updated and relevant market conditions and company business operations.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.2 Equity price risk

The value of the equity and derivative portfolio held by the Group is mainly subject to change in market volatility and share price of the underlying equity securities.

The table below shows the impact on the consolidated profit before taxation of the Group for hypothetical changes in underlying prices and volatilities. No correlation is taken into consideration in presenting the below analysis.

31 December 2018 HK$'000	Change in volatility		
Change in equity price	**10%**	**0%**	**-10%**
10%	5,240	26,691	48,142
-10%	(88,642)	(67,191)	(45,740)

31 December 2017 HK$'000	Change in volatility		
Change in equity price	**10%**	**0%**	**-10%**
10%	(53,928)	12,155	78,239
-10%	(175,838)	(109,754)	(43,671)

The Group does not have non-trading book exposure to equity price risk as at the end of the reporting periods.

3.1.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in interest rates. The Group takes on exposure on both fair value and cash flow interest rate risks.

Interest rate risk from trading book is monitored by RMD by using VaR tools on a daily basis. For non-trading book, both RMD and FTD are responsible for monitoring and managing the interest rate risk with the aim to preserve capital and to ensure the steadiness and continuation of operations. The Group sets limits on the level of mismatch in interest rate and duration gap to control the risks associated with both parallel and non-parallel shifts of yield curves. Limit on stress loss is also imposed by the Board to control the adverse impact on capital in case of uncontrollable market conditions.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.3 Interest rate risk (continued)

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2018	Less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Over 1 year HK$'000	Non-interest bearing HK$'000	Total HK$'000
Statutory deposits and other assets	67,472	-	-	-	10,208	77,680
Financial assets at fair value through other comprehensive income	-	-	-	-	355	355
Debt instruments at amortised cost	99,930	99,784	49,576	-	-	249,290
Financial assets at fair value through profit or loss	-	-	-	-	534,237	534,237
Derivative financial instruments	-	-	-	-	156,841	156,841
Amounts due from the immediate holding company	1,354,898	574,000	20,157	-	3,399	1,952,454
Amounts due from fellow subsidiaries	-	-	-	-	6	6
Account and other receivables	683,423	-	-	-	5,518,113	6,201,536
Loans to customers	14,368,907	33,889	939	-	-	14,403,735
Cash and balances with banks	5,283,904	1,384,114	11,372	-	424,797	7,104,187
Others	-	-	-	-	140,938	140,938
Total assets	21,858,534	2,091,787	82,044	-	6,788,894	30,821,259
Subordinated loans from the immediate holding company	(2,500,000)	-	-	-	-	(2,500,000)
Amounts due to the immediate holding company	(2,054,351)	(2,243,729)	-	-	(928,884)	(5,226,964)
Amounts due to fellow subsidiaries	-	-	-	-	(15,039)	(15,039)
Amounts due to a related company	-	-	-	-	(5,693)	(5,693)
Accounts and other payables	(368,194)	-	-	-	(5,491,086)	(5,859,280)
Deposits from customers	(5,074,613)	(2,081,634)	(329,757)	-	-	(7,486,004)
Derivative financial instruments	-	-	-	-	(193,744)	(193,744)
Financial liabilities at fair value through profit or loss	-	-	-	-	(125,201)	(125,201)
Others	-	-	-	-	(58,045)	(58,045)
Total liabilities	(9,997,158)	(4,325,363)	(329,757)	-	(6,817,692)	(21,469,970)
Total interest repricing gap	11,861,376	(2,233,576)	(247,713)	-		

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.3 Interest rate risk (continued)

At 31 December 2017	Less than 1 month HK$'000	Between 1 to 3 months HK$'000	Between 3 to 12 months HK$'000	Over 1 year HK$'000	Non-interest bearing HK$'000	Total HK$'000
Statutory deposits and other assets	94,362	-	-	-	15,457	109,819
Available-for-sale financial assets	-	-	-	-	355	355
Held-to-maturity financial assets	-	99,874	49,791	-	-	149,665
Financial assets at fair value through profit or loss	-	-	-	-	1,770,810	1,770,810
Derivative financial instruments	-	-	-	-	377,989	377,989
Amounts due from the immediate holding company	709,564	370,000	200,000	-	2,768	1,282,332
Amounts due from a related company	-	-	-	-	31,570	31,570
Account and other receivables	495,182	-	-	-	7,041,350	7,536,532
Loans to customers	17,852,554	90,235	5,252	-	-	17,948,041
Cash and balances with banks	7,048,516	688,265	7,961	-	653,823	8,398,565
Others	-	-	-	-	55,751	55,751
Total assets	26,200,178	1,248,374	263,004	-	9,949,873	37,661,429
Subordinated loans from the immediate holding company	(2,500,000)	-	-	-	-	(2,500,000)
Amounts due to the immediate holding company	(4,434,645)	(2,220,456)	(2,237,847)	-	(1,053,781)	(9,946,729)
Amounts due to fellow subsidiaries	-	-	-	-	(2,250)	(2,250)
Amounts due to a related company	-	-	-	-	(5,992)	(5,992)
Accounts and other payables	(562,465)	-	-	-	(7,374,378)	(7,936,843)
Deposits from customers	(6,397,338)	(1,131,893)	(295,167)	-	-	(7,824,398)
Derivative financial instruments	-	-	-	-	(541,061)	(541,061)
Financial liabilities at fair value through profit or loss	-	-	-	-	(19,100)	(19,100)
Others	-	-	-	-	(116,293)	(116,293)
Total liabilities	(13,894,448)	(3,352,349)	(2,533,014)	-	(9,112,855)	(28,892,666)
Total interest repricing gap	12,305,730	(2,103,975)	(2,270,010)	-		

As at 31 December 2018, if market interest rates had been 100 basis point higher or lower with other variables held constant, profit before taxation for the year would have been approximately HK$94 million (2017: HK$92 million) higher/lower, mainly as a result of higher/lower net interest income earned on floating rate bank balances, loans to customers, balances with the immediate holding company, subordinated loan from the immediate holding company and deposits from customers.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Market risk (continued)

3.1.4 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency rates fluctuations.

The foreign exchange risk of the trading book is managed in the Group either by using foreign exchange spots or other derivative transactions. It is controlled under the risk management framework, including VaR and stress limits. For non-trading book, the Group sets limits on individual and aggregate open positions of various currencies. Stress loss limits of non-trading book are also set. The foreign exchange risk of non-trading book is monitored by both RMD and FTD on a daily basis.

As at 31 December 2018, the Group did not have significant open foreign currency positions, except for USD and CNY. The USD net long open position amounted to approximately HK$12 million (2017: net long position of HK$18 million). The CNY net short open position amounted to approximately HK$701 million (2017: net short position of HK$892 million).

USD and CNY denominated assets mainly consist of short-term deposits, loans and receivables and amounts due from the immediate holding company, while USD and CNY denominated liabilities include accounts and other payables, deposits from customers and amounts due to the immediate holding company and fellow subsidiaries.

As HKD is pegged to USD, the Group is not exposed to significant foreign exchange risk on USD. Should CNY appreciate/depreciate against HKD by 5% (2017: 5%), the profit before taxation would decrease/increase by HK$35 million (2017: HK$45 million).

3.2 Credit risk

Credit risk represents the loss that the Group would suffer if a client or counterparty fails to meet its contractual obligations. Credit exposures arise principally in loans and receivables, debt securities and derivative financial instruments. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The credit risk management and control are centralised in RMD.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.1 Loans and receivables

The Group assesses credit risk of loans to corporate and individual clients and to financial institutions by performing credit assessment.

The credit risk management system of the Group comprises of pre-trade and post-trade credit control functions.

Regarding the pre-trade credit control functions, the Group has policies and procedures in place to ensure that credits are granted to clients with appropriate creditworthiness. The Group has its own in-house assessment methodologies for evaluating the creditworthiness of its counterparties. The Group credit approval process involves a detailed assessment of the counterparty's creditworthiness and also the risks related to the specific type of credit facility applied for.

Credit limits are set up to cap the maximum credit exposures that the Group intends to assume over specified periods. The Group's credit policy and procedure also sets out the procedures for the approval of exceptional cases when the Group may assume exposures beyond the set limits. Exposure to credit risk is managed in part by obtaining collateral from the clients. The Group has maintained relationships with various financial institutions and other counterparties, and has credit limits in place for these counterparties.

Post-trade credit control encompasses exposure and collateral monitoring and reporting. Collaterals covering the credit risk exposure in case of default are subject to mark-to-market and monitoring on a daily basis (refer to 3.2.4 for details).

In particular, credit risk from customer securities dealing receivables under securities brokerage business is normally controlled through delivery-against-payment settlement and custody arrangement.

3.2.2 Debt securities and derivatives

Credit risk is inherent in debt securities and derivatives.

The Group assesses credit risk of derivative counterparties using external credit ratings and internal credit assessment. The Group controls the credit exposures by imposing potential market exposure limits. At any one time, the amount subject to credit risk includes (i) the current fair values of instruments that are favourable to the Group (i.e., assets where their fair values are positive) and (ii) the potential exposures of each counterparty from market movements. The credit risk exposure is monitored on a daily basis and collateral is obtained to mitigate the credit risk depending on credit assessment of the counterparty.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.2 Debt securities and derivatives (continued)

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate settlement risk arising from the Group's market transactions on any single day.

Credit risk management of trading book debt securities is mainly on portfolio basis. Issuer concentration limit and country concentration limit are set. Debt securities in the trading book are monitored under the market risk management framework, including VaR and stress limits.

As at the end of the reporting periods, all financial assets at fair value through other comprehensive income are unrated and all debt instruments at amortised cost are AA+ rating.

3.2.3 Offsetting financial instruments

The following financial tables present details of the Group's financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements.

At 31 December 2018				Related amounts not set off in the consolidated statement of financial position		
	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Financial instruments HK$'000	Cash collateral received HK$'000	Net amount HK$'000
Financial assets						
Loans and receivables	8,780,245	(3,736,957)	5,043,288	(908,504)	-	4,134,784
Derivative financial instruments	122,971	-	122,971	(3,748)	-	119,223
Amounts due from the immediate holding company	1,952,454	-	1,952,454	(1,952,454)	-	-
Total	10,855,670	(3,736,957)	7,118,713	(2,864,706)	-	4,254,007

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments (continued)

At 31 December 2018	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral pledged HK$'000	Net amount HK$'000
Financial liabilities						
Accounts and other payables	(8,310,852)	3,736,957	(4,573,895)	908,504	-	(3,665,391)
Derivative financial instruments	(124,476)	-	(124,476)	3,748	3,246	(117,482)
Amounts due to the immediate holding company	(5,226,964)	-	(5,226,964)	1,952,454	-	(3,274,510)
Total	(13,662,292)	3,736,957	(9,925,335)	2,864,706	-	(7,057,383)

At 31 December 2017	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000	Net amounts of financial assets presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
Financial assets						
Loans and receivables	12,209,576	(5,500,116)	6,709,460	(1,739,752)	-	4,969,708
Derivative financial instruments	114,321	-	114,321	(7,420)	-	106,901
Amounts due from the immediate holding company	1,282,332	-	1,282,332	(1,282,332)	-	-
Total	13,606,229	(5,500,116)	8,106,113	(3,029,504)	-	5,076,609

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.3 Offsetting financial instruments (continued)

At 31 December 2017	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position: Financial instruments HK$'000	Related amounts not set off in the consolidated statement of financial position: Cash collateral pledged HK$'000	Net amount HK$'000
Financial liabilities						
Accounts and other payables	(11,932,096)	5,500,116	(6,431,980)	1,739,752	-	(4,692,228)
Derivative financial instruments	(113,636)	-	(113,636)	7,420	-	(106,216)
Amounts due to the immediate holding company	(9,946,729)	-	(9,946,729)	1,282,332	-	(8,664,397)
Total	(21,992,461)	5,500,116	(16,492,345)	3,029,504	-	(13,462,841)

The Group manages its credit exposure by entering into master netting arrangements with counterparties where it is appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of assets and liabilities in the consolidated financial statements as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs.

For the financial assets and liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar arrangement will have the option to settle all such amounts on a net basis in the event of default of the other party. The Group and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously; the financial assets and liabilities are therefore not set off in the consolidated statement of financial position.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.4 Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of collateral.

As part of the credit approval process, RMD is responsible for defining and assessing the acceptability of collateral that is offered. The recovery rates of its credit exposures are determined based on the debt structure of a debtor and its assessment of the collateral based upon such factors as the liquidity of the collateral (which reflects the ability to unwind a position), the price volatility of the collateral, the suitability of the collateral as a hedge to the Group's exposure and the legal ability to apply such collateral.

Collateral held as security for financial assets is determined by the nature of the instrument. Generally, loans are secured by various forms of collateral including listed stocks, properties, debt securities, and other credit enhancements. Debt securities, treasury and other eligible bills are generally unsecured.

For derivative transactions, generally the Group will require non-investment grade financial institutions and non-financial institutions to collateralise potential market exposure. Among other factors, the approval will be based upon the liquidity of the collateral (which reflects the ability to unwind a position as necessary), the price volatility of the collateral, the suitability of the collateral as a hedge to the exposure and the legal ability to apply such collateral.

Collateral monitoring is a crucial part of the credit risk measurement process. For margin financing, the collateral for covering the credit risk exposure are subject to mark-to-market and monitoring on a daily basis. A margin call to margin client would be made if there is an excess in margin loan limit or insufficient margin value to cover his/her credit risk exposure.

For loans to customers (margin loans), the collateral for covering the credit risk exposure in case of default are subject to mark-to-market and monitoring on a daily basis. A margin call to margin client would be made if there is an excess in margin loan limit or insufficient margin value to cover his/her risk credit exposure.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

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

The following table summarises maximum exposure to credit risk of the Group at 31 December 2018 and 2017 before collateral held or other credit enhancement attached. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the consolidated statement of financial position.

Maximum exposure to credit risk	Notes	2018	2017
		HK$'000	HK$'000
Loans to customers			
To individuals			
- Margin loans	1	7,693,855	9,904,354
- Demand loans	2	3,717,400	3,704,635
- Term loans	3	22,192	15,049
To corporate entities			
- Margin loans	1	2,364,276	3,840,092
- Demand loans	2	581,358	475,553
- Term loans	3	24,654	8,358
Statutory deposits and other assets	4	77,680	109,819
Accounts and other receivables	5	6,201,536	7,536,531
Financial assets at fair value through other comprehensive income	6	355	-
Available-for-sale financial assets - Club debentures	6	-	355
Held-to-maturity financial assets - Debt securities	7	-	149,665
Debt instruments at amortised cost	7	249,290	-
Derivative financial instruments	8	156,841	377,989
Cash and balances with banks	9	7,104,187	8,398,565
At 31 December		28,193,624	34,520,965

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Maximum exposure to credit risk before collateral held or other credit enhancement (continued)

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Group based on the following:

(1) Margin loans are fully backed by collaterals including listed stocks, bonds and deposits, with fair value greater than the outstanding loan amounts. No margin loans were considered to be impaired at the end of the reporting periods.

(2) Majority of demand loans were fully backed by collateral in the form of listed shares, plant and equipment, debt securities, insurance policies, structured with credit enhancement and deposits, with fair value of collaterals generally greater than the outstanding loan amounts. Approximately HK$1.3 million provision was made as at 31 December 2018 for those classified as stage 3 credit-impaired loans (2017: HK$1.8 million individually assessed provision).

(3) Secured term loans to individuals and corporates are fully backed by various types of collaterals, such as listed stocks, bonds, properties, insurance policies and deposits, with fair value of collaterals greater than the outstanding loan amounts.

(4) Statutory deposits are placed with regulators and considered to have minimal risk.

(5) There was no significant impairment on account receivables for trading in securities, options and futures contracts as at the end of the reporting periods. Among those unimpaired accounts and other receivables, approximately HK$5,887 million (2017: HK$7,387 million) is receivables from dealing in securities, which normally has a settlement term of two days. Except for the account receivables arising from dealing in securities from other subsidiaries of Bank of China Limited as disclosed in note 32, there is no concentration of credit risk with respect to account receivables, as the Group has a large number of customers who are internationally dispersed. All the account receivables arising from other subsidiaries of Bank of China Limited were fully settled within two business days after the end of the reporting periods.

A provision of approximately HK$41 million (2017: HK$42 million) was made as at 31 December 2018 for those classified as stage 3 credit-impaired fees and receivables. There was no reversal of impairment provision for fees and receivables in 2018 (2017: Nil).

(6) Available-for-sale financial assets are mainly unlisted club debentures with insignificant credit risk exposure. Upon the adoption of HKFRS 9, unlisted club debentures were re-classified as financial assets at fair value through other comprehensive income

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.5 Maximum exposure to credit risk before collateral held or other credit enhancement (continued)

(7) Held-to-maturity financial assets are Hong Kong Exchange Fund Bills. Exchange Fund Bills are Hong Kong dollar debt securities issued by the HKMA. They constitute direct, unsecured, unconditional and general obligations of the Hong Kong Special Administrative Region Government. Hong Kong Exchange Fund Bills that were previously classified as held-to-maturity financial assets were subsequently re-classified as debt instruments at amortised costs upon the adoption of HKFRS 9.

(8) Derivative financial instruments are considered to have minimal risk as offsetting enforceable netting agreements are signed with counterparties with collateral placed. Daily exposure monitoring was performed to ensure the credit risk exposure is within limit.

(9) Cash and balances with banks were deposited in reputable banks including a fellow subsidiary and other subsidiaries of Bank of China Limited. The Group has policies in place to ensure that cash and balances with banks are either placed with high credit quality financial institutions or related companies (note 32) with minimum credit risk.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Loans and receivables - Overdue and provision

Significant loans and receivables as at 31 December are summarised as follows:

	2018 HK$'000	2017 HK$'000
Loans to customers		
Neither past due nor impaired	14,382,998	17,944,140
Past due but not impaired	19,497	3,901
Impaired	2,529	1,777
Gross	14,405,024	17,949,818
Impairment allowance	(1,289)	(1,777)
	14,403,735	17,948,041
Accounts and other receivables		
Neither past due nor impaired	6,200,788	7,536,532
Past due but not impaired	748	-
Impaired	41,852	41,705
Gross	6,243,388	7,578,237
Impairment allowance	(41,852)	(41,705)
	6,201,536	7,536,532
Total	20,605,271	25,484,573

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Credit risk (continued)

3.2.6 Loans and receivables - Overdue and provision (continued)

Gross amount of loans and receivables by class to customers that were past due but not impaired were as follows:

	2018 HK$'000		2017 HK$'000	
Individual	Margin loans	Account receivables from dealing in securities	Margin loans	Account receivables from dealing in securities
Past due 1 day	6,152	1	953	-
Past due 2 to 5 days	3,758	723	991	-
Past due 6 to 30 days	9,478	-	-	-
Past due over 30 days	-	-	1,944	-
Total	19,388	724	3,888	-
Fair value of collateral	635,668	3,604	16,856	-
Corporate				
Past due 1 day	11	-	-	-
Past due 2 to 5 days	98	-	-	-
Past due 6 to 30 days	-	24	-	-
Past due over 30 days	-	-	13	-
Total	109	24	13	-
Fair value of collateral	11,974	723	617,325	-

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet the obligations of financial contracts that require funding for settlement and to maintain margin and collateral positions. It is crucial for the Group to maintain an appropriate level of liquidity, especially during periods of adverse conditions in particular for systematic risks associated with the financial markets, such as the financial tsunami happened in 2008. FTD is responsible for managing liquidity risk with the aim to:

- Ensure the availability of adequate funding to meet obligations as and when they fall due; and
- To cater for a liquidity crisis.

The nature of businesses of the Group is financial intermediaries and a major part of its consolidated statement of financial position assets arise from securities turnover and collateralised margin lending for securities clients. The maturity profile of the Group's asset portfolio is therefore short-term skewed with high turnover ratio in assets. Appropriate credit control is in place to ensure that brokerage transactions are settled on time. This reduces liquidity concern on the Group when acting in the capacity of an agent.

The Group measures and monitors its net funding requirements by constructing maturity profile that projects future cash flows arising from assets, liabilities and off balance sheet transactions. The Board sets liquidity ratios and limits on the mismatch, which are taken to control liquidity risks due to asset-liabilities mismatch.

3.3.1 Undiscounted cash flows by contractual maturities

The table below presents the cash flows payable by the Group under non-derivative financial liabilities, derivative financial assets/liabilities that will be settled on a net basis and derivative financial assets/liabilities that will be settled on gross basis by remaining contractual maturities at the end of reporting period.

The Group's derivatives that will be settled on a gross basis include:

- Equity derivatives: listed and over-the-counter stock options, listed index options, equity swaps, exchange-traded futures;
- Foreign exchange rate derivatives: non-deliverable forwards, options;
- Interest rate derivatives: cross currency interest rate swaps; and
- Foreign exchange rate derivatives: currency forward.

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.1 Undiscounted cash flows by contractual maturities (continued)

The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on the expected undiscounted cash inflows.

At 31 December 2018	On demand and up to 1 month HK$'000	1 to 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Non-derivative cash outflow liabilities					
Subordinated loans from the immediate holding company	2,504,904	-	-	-	2,504,904
Amounts due to the immediate holding company	2,983,881	2,260,938	-	-	5,244,819
Amounts due to fellow subsidiaries	15,039	-	-	-	15,039
Amounts due to a related company	5,693	-	-	-	5,693
Accounts and other payables	5,568,926	12,573	243,744	34,037	5,859,280
Deposits from customers	5,075,731	2,087,692	334,825	-	7,498,248
Financial liabilities at fair value through profit or loss	125,201	-	-	-	125,201
	16,279,375	4,361,203	578,569	34,037	21,253,184
Cash flow from derivative financial assets and liabilities					
Settled on net basis	-	-	-	-	-
Settled on gross basis					
Total inflow	2,894,815	512,506	196,864	-	3,604,185
Total (outflow)	(2,903,020)	(510,591)	(196,427)	-	(3,610,038)
	(8,205)	1,915	437	-	(5,853)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

3.3.1 Undiscounted cash flows by contractual maturities (continued)

At 31 December 2017	On demand and up to 1 month HK$'000	1 to 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Non-derivative cash outflow liabilities					
Subordinated loans from the immediate holding company	2,502,826	-	-	-	2,502,826
Amounts due to the immediate holding company	5,495,154	2,233,754	2,283,776	-	10,012,684
Amounts due to fellow subsidiaries	2,250	-	-	-	2,250
Amounts due to a related company	5,992	-	-	-	5,992
Accounts and other payables	7,588,919	10,434	295,922	41,568	7,936,843
Deposits from customers	6,397,488	1,133,406	295,692	-	7,826,586
Financial liabilities at fair value through profit or loss	19,100	-	-	-	19,100
	22,011,729	3,377,594	2,875,390	41,568	28,306,281
Cash flow from derivative financial assets and liabilities					
Settled on net basis	-	-	-	-	-
Settled on gross basis					
Total inflow	2,091,052	233,124	254,513	3,134	2,581,823
Total (outflow)	(2,039,483)	(278,927)	(306,832)	(3,129)	(2,628,371)
	51,569	(45,803)	(52,319)	5	(46,548)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities

(a) Financial instruments measured at fair value using valuation technique

If a financial instrument has an active market, the quoted market price in the active market is used to determine its fair value.

If the market for a financial instrument is not active, valuation techniques are used to establish its fair value. These valuation techniques are commonly used by market participants and demonstrated to provide reliable estimates of prices obtained in actual market transactions.

Inputs to these valuation techniques are generally market observable, of which:

- The fair value of debt securities is obtained from market quotes.
- The fair value of foreign exchange spots, forwards and swaps is measured using spot or forward exchange rates.
- The fair value of equity options is established using option valuation models (e.g. the Black-Scholes model).

For financial instruments measured at fair value using a valuation technique, the total amount of the change in fair value estimated using a valuation technique that was recognised in the consolidated income statement during the year is approximately a gain of HK$19,256,000 (2017: HK$44,282,000).

(b) Financial instruments not measured at fair value

For financial instruments that are not measured in fair value, including debt instruments at amortised cost, loans and receivables, cash and balances with banks, amounts due from/to the immediate holding company, subordinated loan from the immediate holding company, amounts due from/to fellow subsidiaries, accounts and other payables, and deposits from customers, their carrying amounts approximate the fair values.

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

(c) Fair value hierarchy

HKFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges and exchanges traded derivatives like bond futures.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of debt securities without active secondary markets, the OTC derivative contracts and issued structured notes.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes debt or equity instruments with significant unobservable components and investment return guarantee contracts related to provident fund and retirement fund schemes managed by the Group.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Fair value of financial assets and liabilities (continued)

3.4.1 Assets and liabilities measured at fair value

At 31 December 2018	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Financial assets at fair value through profit or loss			
- Equity securities	534,237	-	534,237
Derivatives financial instruments	-	156,841	156,841
Financial assets at fair value through other comprehensive income			
- Club debentures	-	355	355
Total	534,237	157,196	691,433
Financial liabilities at fair value through profit or loss			
- Equity securities	125,201	-	125,201
Derivatives financial instruments	-	193,744	193,744
Total	125,201	193,744	318,945

At 31 December 2017	Level 1 HK$'000	Level 2 HK$'000	Total HK$'000
Financial assets at fair value through profit or loss			
- Equity securities	1,770,810	-	1,770,810
Derivatives financial instruments	-	377,989	377,989
Available-for-sale financial assets			
- Club debentures	-	355	355
Total	1,770,810	378,344	2,149,154
Financial liabilities at fair value through profit or loss			
- Equity securities	19,100	-	19,100
Derivatives financial instruments	-	541,061	541,061
Total	19,100	541,061	560,161

During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

3. FINANCIAL RISK MANAGEMENT (continued)

3.5 Capital management

The Group's objectives when managing capital, which is a broader concept than the "equity" which include all the Group's consolidated equity of HK$9,351,288,754 (2017: HK$8,768,763,386) on the face of consolidated statement of financial position and the subordinated loans from the immediate holding company of HK$2,500,000,000 (2017: HK$2,500,000,000), are:

- To comply with the capital requirements under the Banking (Capital) Rules of the Hong Kong Banking Ordinance for the subsidiary carrying out banking business;
- To comply with the requirements of Hong Kong Securities and Futures Ordinance for the Company and its subsidiaries in carrying various types of activities;
- To support the Group's stability and growth;
- To optimise risk adjusted return to the shareholder; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy of the banking subsidiary of the Group is monitored daily by the Group's management, employing techniques based on the Hong Kong Banking (Capital) Rules. The required information is filed with the Hong Kong Monetary Authority ("HKMA") on a quarterly basis.

The HKMA requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset (the capital adequacy ratio) at or above the minimum of 11.25%.

In addition, the Company and certain subsidiaries of the Group are also subject to statutory capital requirement issued by the Hong Kong Securities and Futures Commission ("SFC") ranging from HK$100,000 to HK$10,000,000.

During the years ended 31 December 2018 and 2017, the banking subsidiary complied with all externally imposed capital requirements by the HKMA. The subsidiaries regulated by the SFC complied with the statutory capital requirement.

The subsidiaries regulated by the SFC are also required to maintain adequate financial resources to support their businesses. The Hong Kong Securities and Futures (Financial Resources) Rules require a licensed corporation to maintain liquid capital which is not less than its required liquid capital. During the year, the subsidiaries regulated by the SFC have maintained adequate financial capital to meet the requirement.

4. SEGMENT INFORMATION

The operating business of BOC International Holdings Limited ("BOCI Group"), the Group's immediate holding company, are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. The Group's operating business segment and structure follows that of BOCI Group.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the EC as its chief operating decision maker.

All transactions between business segments are conducted on an arm's length basis, with intra-segment income and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

The main business segments of the Group are as follows:

Investment banking	• Provides a wide range of securities origination services for issuer clients, including underwriting and placement of public and private equity, debt and related securities. • Advices clients on mergers, acquisitions and restructurings.
Brokerage & wealth management	• Provides brokerage, margin financing service, and private banking to individual and institutional clients.
Private banking	• Provides a range of services for high net-worth individual clients and corporate clients.
Fixed income & equity market	• Facilitates client transactions and makes markets in securities, derivatives, currencies, commodities and other financial instruments to satisfy client demands. • Engages in principal and in proprietary trading activities.
Leverage & structured finance	• Provides structured financing and financial advisory services.
Treasury and others	• Provides central treasury services on behalf of Group companies.

No segment assets and segment liabilities are disclosed as no such information are presented to the EC, which is the chief operating decision maker.

Over 90% of the Group's revenue and profit are derived from its business activities in Hong Kong.

4. SEGMENT INFORMATION (continued)

No individual customer, except for Bank of China Limited and its subsidiaries, contributed more than 10% of each individual segment income above. Please refer to note 32 for details of the related party transactions.

The Group's segment results for the year ended 31 December 2018 and 2017 are as follows:

31 December 2018	Investment banking HK$'000	Brokerage & wealth management HK$'000	Private banking HK$'000	Fixed income & equity market HK$'000	Leveraged & structured finance HK$'000	Treasury and others HK$'000	Elimination HK$'000	Total HK$'000
Total income – external	139,691	2,418,648	357,485	322,643	18,588	60,640	-	3,317,695
Total income – inter-segment	-	-	30,764	-	-	73,767	(104,531)	-
Commission and clearing expense	7,087	(712,688)	(22,271)	(28,623)	(4)	(572)	-	(757,071)
Depreciation	-	(11)	-	-	-	-	-	(11)
Other operating expenses	(198,417)	(514,963)	(197,030)	(187,116)	(9,780)	95,446	-	(1,011,860)
Finance costs – external	-	(7,089)	(29,208)	(2,687)	(9)	(222,254)	-	(261,247)
Finance costs – inter-segment	-	-	(73,776)	-	9	(30,764)	104,531	-
Segment results	(51,639)	1,183,897	65,964	104,217	8,804	(23,737)	-	1,287,506
Unallocated cost								(663,852)
Operating profits								623,654

31 December 2017	Investment banking HK$'000	Brokerage & wealth management HK$'000	Private banking HK$'000	Fixed income & equity market HK$'000	Leveraged & structured finance HK$'000	Treasury and others HK$'000	Elimination HK$'000	Total HK$'000
Total income – external	214,828	2,979,896	330,634	359,142	45,268	46,483	-	3,976,251
Total income – inter-segment	-	-	18,143	-	-	45,342	(63,485)	-
Commission and clearing expense	(684)	(711,436)	(9,725)	(24,543)	-	(658)	-	(747,046)
Depreciation	-	(38)	-	-	-	-	-	(38)
Other operating expenses	(230,470)	(473,573)	(169,886)	(223,069)	(13,487)	65,392	-	(1,045,093)
Finance costs – external	-	(5,433)	(16,962)	(4,006)	-	(126,887)	-	(153,288)
Finance costs – inter-segment	-	-	(45,342)	-	-	(18,143)	63,485	-
Segment results	(16,326)	1,789,416	106,862	107,524	31,781	11,529	-	2,030,786
Unallocated cost								(643,603)
Operating profits								1,387,183

5. REVENUE AND TRADING GAIN, NET

(a) Revenue

	2018 HK$	2017 HK$
Revenue from contracts with customers		
Brokerage commission	1,410,893,364	1,467,399,307
Underwriting and placement commission	272,740,863	353,724,749
Corporate finance and loan syndication fees	114,710,935	169,654,645
Revenue from other sources		
Interest income from bank deposits and loans to customers	1,203,213,091	861,908,652
Dividend income from listed equities held for trading	74,513,761	77,874,917
	3,076,072,014	2,930,562,270

(b) Trading gain, net

	2018 HK$	2017 HK$
Net realised/unrealised gain/(loss) on financial assets and financial liabilities (note)		
- Equity securities	(375,984,790)	1,227,518,616
- Debt securities	80,742,998	124,895,730
- Derivative financial instruments	312,132,606	(506,204,347)
	16,890,814	846,209,999

Note:
Net realised/unrealised gain/(loss) on financial assets and financial liabilities includes interest income and interest expenses arising from financial assets and financial liabilities at fair value through profit or loss.

The net realised/unrealised gain/(loss) on financial assets and financial liabilities included:

	2018 HK$	2017 HK$
Trading (loss)/gain from listed investments	(43,379,033)	757,336,498
Trading gain from unlisted investments	60,269,847	88,873,501
	16,890,814	846,209,999

6. OTHER INCOME

	Note	2018 HK$	2017 HK$
Management fee income from a related company	32	66,406,825	73,415,639
Handling and custodian fees		100,670,278	88,338,702
Foreign exchange gain, net		15,696,445	19,834,988
Interest income from			
- BOCI Group companies	32	27,305,828	7,838,429
- Debt instruments at amortised cost		1,720,273	1,937,977
- Others		9,389,561	5,717,438
Others		3,543,196	2,395,730
		224,732,406	199,478,903

7. STAFF COSTS

	2018 HK$	2017 HK$
Wages, salaries, other allowances and unutilised annual leave	376,935,256	388,356,687
Discretionary bonus and other long-term employee benefits	230,768,557	281,245,907
Pension costs - defined contribution plans	26,774,689	28,027,024
Staff medical, recruitment, training, welfare expenses and termination benefits	16,024,537	13,060,638
	650,503,039	710,690,256

Note:
Staff costs include directors' remuneration (note 8).

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 HK$	2017 HK$
Basic salaries, housing allowances, other allowances and benefits in kind	10,027,792	11,988,008
Contributions to pension schemes	853,917	1,051,001
Discretionary bonus		
- Short term employee benefits	8,149,048	11,509,223
- Other long-term employee benefits	2,542,126	3,566,447
	21,572,883	28,114,679

In addition to the directors' remuneration disclosed above, certain directors of the Company received remuneration from the immediate holding company and a fellow subsidiary, which totals HK$16,875,385 (2017: HK$20,108,787), part of which is in respect of their services to the Group. No apportionment has been made as the directors consider that it is impracticable to apportion this amount between their services to the Group and their services to the Company's immediate holding company and the fellow subsidiaries.

During the year, there were no loans to directors which are required to be disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation (2017: Nil).

9. NET CREDIT/(CHARGE) FOR IMPAIRMENT ON ASSETS

	2018 HK$	2017 HK$
Cash and balances with banks (note 23):		
- Stage 1	(65,713)	-
- Stage 2	-	-
- Stage 3	-	-
	(65,713)	-
Loans and receivables (note 22):		
- Stage 1	161,786	-
- Stage 2	-	-
- Stage 3	353,044	-
- Collectively assessed impairment:	-	-
- Individually assessed impairment:	-	2,830,325
	514,830	2,830,325
Debt instruments at amortised cost (note 20):		
- Stage 1	(2,477)	-
- Stage 2	-	-
- Stage 3	-	-
	(2,477)	-
Financial assets at fair value through other comprehensive income (note 17):		
- Stage 1	(89)	-
- Stage 2	-	-
- Stage 3	-	-
	(89)	-
	446,551	2,830,325

Under HKFRS 9, ECL is assessed using an approach which classifies financial assets into three stages, each of which is associated with an ECL requirement that is reflective of the assessed credit risk profile in each instance.

10. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Notes	2018 HK$	2017 HK$
Operating lease rental in respect of leased premises		60,800,450	61,510,766
Depreciation	13	10,695	38,066
Management fee to related companies	32	663,852,197	646,038,740
Auditor's remuneration		860,000	860,000

11. FINANCE COSTS

	2018 HK$	2017 HK$
Interest expenses:		
- deposits from customers and securities brokerage clients	36,719,247	26,301,334
- bank loans and other borrowings	224,527,932	126,986,821
	261,247,179	153,288,155

12. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	Note	2018 HK$	2017 HK$
Current income tax:			
Hong Kong profits tax			
- Current year		48,650,840	123,225,057
- Over-provision in prior years		(4,599,182)	(7,063,684)
Overseas tax			
- Current year		-	5,218,039
- (Over)/under-provision in prior years		(3,568,964)	360,042
Deferred income tax	15	94,443	184,670
		40,577,137	121,924,124

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2018 HK$	2017 HK$
Profit before taxation	623,653,739	1,387,183,187
Tax calculated at statutory tax rate of 16.5% (2017: 16.5%)	102,902,867	228,885,226
Effect of different taxation rates in other countries	-	3,391,726
Income not subject to tax	(108,093,840)	(76,882,345)
Expenses not deductible for tax purposes	3,308,306	3,642,126
Over-provision in prior years	(8,168,146)	(6,703,642)
Unused tax losses not recognised	50,663,211	5,116
Utilisation of previously unrecognised tax losses	-	(30,513,870)
Others	(35,261)	99,787
Income tax expense at effective tax rate of 6.5% (2017: 8.8%)	40,577,137	121,924,124

13. PLANT AND EQUIPMENT

	Leasehold improvements HK$	Furniture, fixtures and equipment HK$	Electronic equipment HK$	Total HK$
Year ended 31 December 2018				
Opening net book amount	-	10,695	-	10,695
Depreciation	-	(10,695)	-	(10,695)
Net book amount	-	-	-	-
At 31 December 2018				
Cost	6,581,756	1,503,663	60,513,419	68,598,838
Accumulated depreciation	(6,581,756)	(1,503,663)	(60,513,419)	(68,598,838)
Net book amount	-	-	-	-
Year ended 31 December 2017				
Opening net book amount	-	48,761	-	48,761
Depreciation	-	(38,066)	-	(38,066)
Net book amount	-	10,695	-	10,695
At 31 December 2017				
Cost	16,981,912	1,984,578	60,611,806	164,939,809
Accumulated depreciation	(16,981,912)	(1,973,883)	(60,611,806)	(164,929,114)
Net book amount	-	10,695	-	10,695

14. INTANGIBLE ASSETS

	Goodwill HK$
Carrying amount as at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	49,715,218

The goodwill in the Group is mostly attributable to securities brokerage business, the cash-generating units ("CGU"). No impairment loss was noted in 2017 and 2018, as the CGU involved was highly profitable. In 2018, net profit of HK$772,988,756 (2017: HK$669,608,197) was generated by the securities brokerage business.

15. DEFERRED INCOME TAX ASSETS

	Note	Impairment allowances HK$	Accelerated tax depreciation HK$	Total HK$
At 1 January 2017		-	1,312,198	1,312,198
Recognised in the consolidated income statement	12	-	(184,670)	(184,670)
At 31 December 2017 and 1 January 2018		-	1,127,528	1,127,528
On adoption of HKFRS 9	2.1.1	115,264	-	115,264
As restated at 1 January 2018		115,264	1,127,528	1,242,792
Recognised in the consolidated income statement	12	(20,525)	(73,918)	(94,443)
At 31 December 2018		94,739	1,053,610	1,148,349

Deferred income tax assets are recognised for tax loss carry-forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of approximately HK$50,727,566 (2017: HK$64,355) in respect of losses amounting to approximately HK$307,439,797 (2017: HK$390,033) that can be carried forward against future taxable income, as certain subsidiaries of the Group have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised. These tax losses have no expiry date.

16. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 HK$	2017 HK$
Club debentures, unlisted as at 1 January and 31 December	-	355,000

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COPMREHENSIVE INCOME

	2018 HK$	2017 HK$
Club debentures, unlisted as at 1 January and 31 December	355,000	-
Less: Allowance for impairment losses – Stage 1	(131)	-
	354,869	-

The movement in allowance for impairment against debt instruments at fair value through other comprehensive income is as follows:

	2018 HK$	2017 HK$
Beginning of year on adoption of HKFRS 9 – Stage 1	42	-
Net charge during the year – Stage 1 (note 9)	89	-
At 31 December	131	-

As at 31 December 2018, club debentures amounted to HK$355,000 were classified under Stage 1.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$	2017 HK$
Trading securities - at fair value - Equity securities, listed in Hong Kong	534,237,232	1,770,809,600
Market value of listed securities	534,237,232	1,770,809,600

19. HELD-TO-MATURITY FINANCIAL ASSETS

	2018 HK$	2017 HK$
Hong Kong Exchange Fund Bills, unlisted	-	149,665,079
Analysed by type of issuers as follows:		
Sovereigns	-	149,665,079
Analysed by issue specific credit rating as follows:		
Fitch, AA+	-	149,665,079

The movement in held-to-maturity financial assets is summarised as follow:

	2018 HK$	2017 HK$
At 1 January	149,665,079	149,839,110
On adoption of HKFRS 9	(149,665,079)	-
As restated at 1 January	-	149,839,110
Additions	-	499,154,120
Redemptions	-	(500,000,000)
Others	-	671,849
At 31 December	-	149,665,079

There were no overdue and impairment allowances made for the held-to-maturity financial assets of the Group as at 31 December 2017.

20. DEBT INSTRUMENTS AT AMORITISED COST

	2018 HK$	2017 HK$
Hong Kong Exchange Fund Bills, unlisted	249,305,212	-
Less: Allowance for impairment losses – Stage 1	(15,375)	-
	249,289,837	-
Analysed by type of issuers as follows:		
Sovereigns	249,289,837	-
Analysed by issue specific credit rating as follows:		
Fitch, AA+	249,289,837	-

The movement in debt instruments at amortised cost is summarised as follow:

	2018 HK$	2017 HK$
At 1 January	-	-
On adoption of HKFRS 9 - Reclassification	149,665,079	-
On adoption of HKFRS 9 - Re-measurement	(12,898)	-
As restated at 1 January	149,652,181	-
Additions	547,919,861	-
Redemptions	(450,000,000)	-
Others	1,717,795	-
At 31 December	249,289,837	-

20. DEBT INSTRUMENTS AT AMORITISED COST (continued)

The movement in allowance for impairment against debt instruments at amortised cost is as follows:

	2018 HK$	2017 HK$
Beginning of year on adoption of HKFRS 9 – Stage 1	12,898	-
Net charge during the year – Stage 1 (note 9)	2,477	-
At 31 December	15,375	-

There were no overdue of debt instruments at amortised cost of the Group as at 31 December 2018. As at 31 December 2018, debt instruments at amortised cost amounted to HK$249,305,212 were classified under Stage 1.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into equity, foreign exchange and interest rate derivative financial instruments for trading and risk management purposes. The types of derivatives utilised by the Group are shown in the following table:

Derivatives	**Description**
Forwards and futures	These instruments are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the over-the-counter (OTC) market, whereas futures are standardised contracts transacted on regulated exchanges. The major types of forward and futures transactions undertaken by the Group are index futures.
Options	Options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded OTC or on a regulated exchange, and may be traded in the form of securities (warrants).
Swaps	These are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. Most swaps are traded OTC. The major types of swap transactions undertaken by the Group are as follows:

- Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of currencies or interest rates (for example, fixed rate for floating rate);
- Credit default swaps are the most common form of credit derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following a credit event (as defined in the contract) with respect to a third party. Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity (as defined in the contract) and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is terminated; and
- Equity swaps give the receiver exposure to the cash flows and economic benefits and risks of an underlying asset, without having to own the asset, in exchange for a series of payments, often based on a reference interest rate, e.g. LIBOR.

21. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters.

The contract/notional amounts and fair values of derivative financial instruments held by the Group are set out in the following tables. The contract/notional amounts of these instruments indicate the volume of transactions outstanding at the end of reporting periods and certain of them provide a basis for comparison with fair value instruments recognised in the consolidated statement of financial position. However, they do not necessarily indicate the amounts of future cash flows involved or the current fair values of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks. The derivative financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate fair values of derivative financial instruments assets and liabilities can fluctuate significantly from time to time.

	Notional amount HK$'000	Assets HK$	Liabilities HK$
Derivatives – held for trading			
At 31 December 2018			
Exchange rate contracts	3,529,351	10,042,150	7,546,927
Equity contracts	5,879,432	145,549,319	184,947,451
Interest rate contracts	80,000	1,249,493	1,249,493
		156,840,962	193,743,871
At 31 December 2017			
Exchange rate contracts	2,369,177	8,119,663	3,558,094
Equity contracts	18,579,160	368,685,768	536,319,598
Interest rate contracts	80,000	1,183,298	1,183,298
		377,988,729	541,060,990

22. LOANS AND RECEIVABLES

	2018 HK$	2017 HK$
Account receivables from dealing in securities	5,887,184,984	7,387,331,571
Fees and commission receivable	68,989,910	66,934,201
Deposits, prepayments and other receivables	287,212,848	123,970,280
Loans to customers	14,405,024,309	17,949,818,483
Gross	20,648,412,051	25,528,054,535
Impairment allowance (under HKAS 39)		
- loans to customers	-	(1,776,997)
- fees and commission receivable	-	(41,704,969)
Impairment allowance (stage 1 under HKFRS 9)		
- loans to customers	(10,244)	-
- fees and commission receivable	(378,281)	-
Impairment allowance (stage 3 under HKFRS 9)		
- loans to customers	(1,279,027)	-
- fees and commission receivable	(41,473,553)	-
Total	20,605,270,946	25,484,572,569

The carrying amounts of loans and receivables approximate their fair value.

As at 31 December 2018, the loans to customers, which included approximately HK$10,105 million (2017: HK$13,768 million) of receivables from margin clients, were secured by listed securities held as collateral of fair value of HK$130,797 million (2017: HK$164,258 million) and cash deposits of HK$346 million (2017: HK$331 million). The Group is permitted to sell or re-pledge such collateral. As at 31 December 2018 and 2017, there were no collateral re-pledged.

The receivables exclude the brokerage client monies maintained in the trust accounts with a clearing participant and other brokers, Hong Kong Futures Exchange Clearing Corporation Limited and the Stock Exchange Options Clearing House of approximately HK$166 million, HK$209 million and HK$175 million respectively as at 31 December 2018 (2017: HK$344 million, HK$160 million and HK$199 million respectively).

During the year, there were no loans to employees which are required to be disclosed pursuant to sections 280 and 281 of the Hong Kong Companies Ordinance.

22. LOANS AND RECEIVABLES (continued)

Impairment allowances against loans and receivables:

HK$	Stage 1	Stage 3	Individually assessed	Total
As at 1 January 2018				
- as previously reported	-	-	43,481,966	43,481,966
- on adoption of HKFRS 9	550,311	43,481,966	(43,481,966)	550,311
As restated at 1 January 2018	550,311	43,481,966	-	44,032,277
Net credit for the year (note 9)	(161,786)	(353,044)	-	(514,830)
Exchange difference and others	-	(28,460)	-	(28,460)
Impairment written off	-	(347,882)	-	(347,882)
As at 31 December 2018	388,525	42,752,580	-	43,141,105

As at 31 December 2018, loans and receivables amounted to HK$20,605,659,471 and HK$42,752,580 were classified under stage 1 and stage 3 respectively. There was no transfer of loans and receivables from stage 1 to stage 3. Net credit for the year is mainly due to the drop in the balance of loans to customers during the year.

23. CASH AND BALANCES WITH BANKS

	2018 HK$	2017 HK$
Cash at banks and in hand	1,078,303,887	2,794,961,248
Placements with banks		
- with original maturity within three months	4,625,234,870	4,619,580,457
- with original maturity over three months	1,400,817,070	984,023,731
Less: Allowance for impairment losses – Stage 1	(168,960)	-
	7,104,186,867	8,398,565,436

23. CASH AND BALANCES WITH BANKS (continued)

The movement in allowance for impairment of placements with banks is as follows:

	2018 HK$	2017 HK$
Beginning of year on adoption of HKFRS 9 - Stage 1	103,247	-
Net charge during the year - Stage 1 (note 9)	65,713	-
At 31 December	168,960	-

The Group maintains trust accounts with authorised institutions and other financial institutions as part of its normal business transactions. At 31 December 2018, trust accounts with authorised institutions and other financial institutions not otherwise dealt with in the consolidated financial statements amounted to approximately HK$32,271 million (2017: HK$36,725 million).

24. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

Amounts due from/to fellow subsidiaries are all non-interest bearing with carrying balances approximating their fair value.

During the year, the Group has entered into securities borrowing and lending arrangements with a fellow subsidiary in the normal course of business on a principal basis, in which it transfers and receives equity securities to and from the fellow subsidiary. The Group has determined that it continues to retain substantially all the risks and rewards of the securities lent and therefore has not derecognised such in the consolidated statement of financial position.

Under securities borrowing and lending agreements, cash collateral was required and collected for securities borrowed and lent respectively. No interest was charged on the collateral deposits received and placed.

As at 31 December 2018 and 31 December 2017, the Group did not have any equity securities lending or borrowing to and from the fellow subsidiary.

Furthermore, a subsidiary of the Group also engages in securities borrowing and lending arrangements but in an agency capacity for its customers. The relevant securities are not recognised in the consolidated statement of financial position.

Except for the cash collateral received and deposited under stock borrowing and lending transactions, all the amounts due to fellow subsidiaries of the Group are repayable upon demand and unsecured.

25. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/A RELATED COMPANY/SUBORDINATED LOANS FROM THE IMMEDIATE HOLDING COMPANY

The Group entered several transactions with the immediate holding company with amounts and terms of the transactions as follows:

- As at 31 December 2018, an amount of HK$1,949,054,392 (2017: HK$1,279,564,560) was lent to the immediate holding company for cash management and general funding purpose, which is unsecured, bears prevailing market interest rate and repayable within a year.
- An amount of HK$3,399,136 (2017: HK$2,767,771) was lent to the immediate holding company for the same purpose, which is unsecured, interest free and repayable upon demand.
- As at 31 December 2018, an amount of HK$4,208,080,455 (2017: HK$8,412,823,935) was borrowed from the immediate holding company by a subsidiary of the Group for cash management and general funding purpose, which is unsecured, bears prevailing market interest rate and repayable within one year. An amount of HK$90,000,000 (2017: HK$480,123,939) was borrowed from the immediate holding company by the Company for same purpose, which is unsecured, bears prevailing market interest rate and repayable within one year. An amount of HK$498,682,422 (2017: HK$498,682,422) was borrowed from the immediate holding company by the Company for same purpose, which is unsecured, interest free and repayable upon demand.
- An amount of HK$430,201,348 (2017: HK$555,098,852) was paid by the immediate holding company on behalf of the Group for daily administrative activities, which is unsecured, interest free and repayable upon demand.

25. AMOUNTS DUE FROM/TO THE IMMEDIATE HOLDING COMPANY/A RELATED COMPANY/SUBORDINATED LOANS FROM THE IMMEDIATE HOLDING COMPANY (continued)

The Group also entered the following transaction with a related company with amounts and terms of the transaction as follows:

- An amount of HK$5,692,865 (2017: HK$5,991,700) due to the associate of the immediate holding company is unsecured, interest-free and repayable upon demand with carrying balances approximating their fair value. In the prior year, an amount of HK$31,570,338 due from an associate of the immediate holding company is unsecured, interest-free and repayable upon demand with carrying balances approximating their fair value.

The subordinated loans from the immediate holding company were borrowed by a subsidiary of the Company:

(i) HK$1,400 million (2017: HK$1,400 million) drawn under a loan facility maturing on 28 October 2019. The amount shall be repayable with one month notice.

(ii) HK$500 million (2017: HK$500 million), drawn under a loan facility maturing on 14 August 2019. The amount shall be repayable with one month notice.

Both subordinated loans are unsecured, bear interest at 1-month HIBOR plus 50 basis points (2017: 1-month HIBOR plus 50 basis points).

The Company

(i) HK$600 million (2017: HK$600 million) drawn under a loan facility. Pursuant to the written consent from the SFC dated 31 December 2013, the maturity date of such loan facility is extended from 2 January 2018 to 2 January 2020 with the remaining terms unchanged. The amount shall be repayable with one month notice. The loan is unsecured, bear interest at 1-month HIBOR plus 200 basis points (2017: 1-month HIBOR plus 200 basis points).

The loans were approved and allowed by the SFC as subordinated loans for exclusion from ranking liabilities in accordance with section 53(2) of the Hong Kong Securities and Futures (Financial Resources) Rules in the computation of regulatory liquid capital.

26. ACCOUNTS AND OTHER PAYABLES

	2018 HK$	2017 HK$
Account payables from dealing in securities	5,383,896,033	7,430,329,632
Account payables from securities trading	5,216	108,194
Discretionary bonus payable	277,780,724	333,863,690
Others payables and accrued expenses	197,598,259	172,541,514
	5,859,280,232	7,936,843,030

The carrying amounts of account payables approximate their fair value.

Account payables represent amounts due to brokerage clients, brokers and clearing houses, and are due within one month. Account payables to clients exclude those payables placed in trust accounts with authorised institutions, Hong Kong Futures Exchange Clearing Corporation Limited and Stock Exchange Options Clearing House and other financial institutions, which amounted to approximately HK$32,821 million as at 31 December 2018 (2017: HK$37,428 million).

Discretionary bonus payable represents bonus to be paid to staff. An amount of approximately HK$34 million (2017: HK$42 million) is due more than one year as at 31 December 2018.

27. DEPOSITS FROM CUSTOMERS

All the deposits from customers are time, call and notice deposits and maturing within 1 year. Deposits from related parties are set out in note 32(a)(viii).

28. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$	2017 HK$
Trading securities – at fair value		
- Equity securities, listed in Hong Kong	125,201,087	19,100,250

29. SHARE CAPITAL

	2018 HK$	2017 HK$
Issued and fully paid:		
200,000 (2017: 200,000) ordinary shares	2,000,000,000	2,000,000,000

30. CASH FLOWS FROM OPERATING ACTIVITIES

Reconciliation of profit before taxation to net cash (used in)/generated from operating activities:

	2018 HK$	2017 HK$
Profit before taxation	623,653,739	1,387,183,187
Interest income	(1,243,349,024)	(878,074,345)
Interest expense	261,247,179	153,288,155
Dividend income	(74,513,761)	(77,874,917)
Depreciation	10,695	38,066
Net (credit)/charge for impairment on assets	(446,551)	2,830,325
	(433,397,723)	587,390,471
Decrease/(increase) in statutory deposits and other assets	32,138,380	(7,329,933)
Decrease/(increase) in loans and receivables	4,880,399,741	(6,776,712,095)
Decrease/(increase) in derivative financial instruments – assets	221,147,767	(208,736,344)
Decrease in financial assets at fair value through profit or loss	1,236,572,368	1,556,989,041
(Increase)/decrease in cash and balances with banks with original maturity over three months	(416,793,339)	220,784,078
Decrease in bank loans and other borrowings – unsecured	-	(90,002,466)
Movement in balances with the immediate holding company	(5,389,886,120)	4,479,663,073
Movement in balances with fellow subsidiaries	12,783,067	(2,382,882,164)
Movement in balances with a related company	31,271,503	(29,144,836)
(Decrease)/increase in derivative financial instruments – liabilities	(347,317,119)	301,801,661
(Decrease)/increase in accounts and other payables	(2,077,562,798)	2,464,752,270
(Decrease)/increase in deposits from customers	(338,709,113)	64,457,154
Increase/(decrease) in financial liabilities at fair value through profit or loss	106,100,837	(41,164,911)
Dividend received	74,513,761	77,874,917
Interest received	1,240,495,153	885,779,491
Interest paid	(260,931,628)	(152,993,102)
Hong Kong and overseas tax (paid)/refund	(183,907,824)	43,166,408
Net cash (used in)/generated from operating activities	(1,613,083,087)	993,692,713

31. COMMITMENTS

Commitments under operating leases

As at 31 December, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2018 HK$	2017 HK$
Land and buildings:		
Less than one year	19,698,840	47,174,325
Between one and five years	38,173,680	7,997,863
	57,872,520	55,172,188

Financial commitments

As at 31 December 2018, the Group has no forward deposits placed (2017: HK$669,057,000).

32. RELATED PARTY TRANSACTIONS

Other than related party transactions disclosed elsewhere in the consolidated financial statements, the major transactions with related parties which the Group entered into during the year are summarised as follows:

(b) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited

2018	Notes	BOC International Holdings Limited and its subsidiaries HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOC International Holdings Limited HK$'000
Consolidated income statement				
Interest income from bank deposits	i	-	189,078	-
Brokerage commission	ii	23,368	579,023	43
Underwriting and placement commission	iii	-	26,908	-
Corporate finance and other fees	iii	-	20,578	-
Management fee income	iv	66,407	-	-
Other income – interest income	i	27,306	-	-
Net realised/unrealised loss on financial assets and financial liabilities	vi	(8)	(4,686)	-
Interest expense on loans and other borrowings	vii	(217,276)	(2,792)	-
Interest expense on customer deposits	viii	-	(349)	-
Commission expenses arising from brokerage activities	ii	(1,494)	(221,084)	(971)
Commission expenses arising from corporate finance activities	iii	-	(2,306)	-
Management fee expense	v	(663,852)	-	-
Operating lease rental in respect of leased premises	ix	-	(58,158)	-
Staff medical, recruitment, training & welfare expenses	x	-	(8,645)	-
Bank charges	xi	(13)	(17,933)	-

32. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

2017	Notes	BOC International Holdings Limited and its subsidiaries HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOC International Holdings Limited HK$'000
Consolidated income statement				
Interest income from bank deposits	i	-	98,403	-
Brokerage commission	ii	33,383	544,664	-
Underwriting and placement commission	iii	-	13,095	53,962
Corporate finance and other fees	iii	-	34,291	-
Management fee income	iv	73,416	-	-
Other income – interest income	i	7,838	-	-
Net realised/unrealised (loss)/gain on financial assets and financial liabilities	vi	(216)	12,488	-
Interest expense on loans and other borrowings	vii	(116,068)	(4,202)	-
Interest expense on customer deposits	viii	-	(73)	-
Commission expenses arising from brokerage activities	ii	(5,378)	(221,866)	(1,046)
Commission expenses arising from corporate finance activities	iii	-	(681)	-
Management fee expense	v	(646,039)	-	-
Operating lease rental in respect of leased premises	ix	-	(49,391)	-
Staff medical, recruitment, training & welfare expenses	x	-	(8,613)	-
Bank charges	xi	(84)	(17,981)	-

32. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

2018	Notes	BOC International Holdings Limited and its subsidiaries HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOC International Holdings Limited HK$'000
Consolidated statement of financial position				
Bank balances and cash	i	-	6,616,592	-
Account receivables from dealing in securities	ii	154,250	1,900,442	149,515
Fee and commission receivable	iii	-	4,557	-
Derivative and other financial instruments (assets)	vi	2,615	2,962	-
Deposits from customers	viii	41,656	2,093	-
Account payables arising from dealing in securities	ii	370,037	1,715,715	2,296
Amount due to a related company	ii	-	-	5,693
Derivative and other financial instruments (liabilities)	vi	41,857	1,959	-

32. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

2017	Notes	BOC International Holdings Limited and its subsidiaries HK$'000	Bank of China Limited and its subsidiaries HK$'000	Associates of BOC International Holdings Limited HK$'000
Consolidated statement of financial position				
Bank balances and cash	i	-	7,914,682	-
Account receivables from dealing in securities	ii	322,351	2,409,805	142,188
Amounts due from a related company	iii	-	-	31,570
Fee and commission receivable	iii	-	3,989	-
Derivative and other financial instruments (assets)	vi	5,457	140,287	-
Bank loans and other borrowings	vii	-	-	-
Deposits from customers	viii	47,671	2,069	-
Account payables arising from dealing in securities	ii	614,342	3,998,592	-
Amount due to a related company	ii	-	-	5,992
Derivative and other financial instruments (liabilities)	vi	33,024	2,710	-

(i) Interest income from bank deposits and bank balances and interest income from the immediate holding company and fellow subsidiaries of BOCI Group

In the ordinary course of business, the Group placed its cash and short-term funds with Bank of China Limited and its related entities. These deposits were conducted at prices and terms that were no more favourable than those contracted with other third party customers.

The Group also received interest income from amounts lent to BOCI Group companies for cash management purpose as disclosed in note 25 to the consolidated financial statements.

32. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

(ii) Commission income and expense arising from brokerage activities

During the year, the Group earned brokerage commission from securities dealing of approximately HK$23,368,000 and HK$579,023,000 (2017: approximately HK$33,383,000 and HK$544,664,000) from fellow subsidiaries controlled by BOCI Group and Bank of China Limited and its subsidiaries respectively as a result of securities transactions executed in Hong Kong. In return, the Group paid approximately HK$1,494,000 and HK$221,084,000 (2017: approximately HK$5,378,000 and HK$221,866,000) as commission expenses.

As at 31 December 2018, the Group had a net payable of HK$215,787,000 to fellow subsidiaries in BOC International Holdings Limited Group and net receivable of HK$184,727,000 to Bank of China Limited and its subsidiaries (2017: net payable of HK$291,991,000 to fellow subsidiaries in BOC International Holdings Limited and net payable of HK$1,588,787,000 to Bank of China Limited and its subsidiaries) as a result of the above transactions executed.

(iii) Underwriting and placement commission income, corporate finance and other fees and commission expenses

In the ordinary course of business, the Group provided underwriting and placement, and corporate finance service to customers and received commission income. During the year, the Group earned a total of HK$47,486,000 from Bank of China Limited and its subsidiaries (2017: HK$47,386,000). These commissions earned were executed at the relevant market rates at the time of the transactions. As at 31 December 2018, the Group had an outstanding fee receivable of HK$4,557,000 from Bank of China Limited and its subsidiaries (2017: HK$3,989,000).

During the year, the Group incurred corporate finance commission expenses of HK$2,306,000 (2017: HK$681,000) from subsidiaries of Bank of China Limited.

An underwriting and placement activity was also jointly conducted by the Group and an associate of the immediate holding company. As at 31 December 2018, the Group has no outstanding fee receivable with associate (2017: HK$31,570,000). No income (2017: HK$53,962,000) was earned from the associate during the year.

32. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

(iv) Management fee income

The Group has agreements with fellow subsidiaries (BOCI Leveraged & Structured Finance Limited, BOCI Financial Products Limited and BOCI Private Wealth Management Limited), under which the Group provides management and administrative services in return for a fee which is agreed and reviewed on an annual basis. These agreements can be terminated by either party giving not less than one month's written notice.

(v) Management fee expense

The Group has agreements with the immediate holding company (BOC International Holdings Limited) and its fellow subsidiaries (BOC International (Singapore) Pte. Ltd., Bank of China International (UK) Limited, and BOC International (USA) Inc.), under which the immediate holding company and the fellow subsidiaries provide administration and support services to the Group in return for a fee which is agreed and reviewed on an annual basis. These agreements can be terminated by either party giving not less than one month's written notice.

(vi) Derivative and other financial instruments (assets/liabilities) and net realised/unrealised gain/(loss) on financial assets and financial liabilities

In the ordinary course of business, the Group entered into equity contracts and exchange rate contracts with fellow subsidiaries of BOCI Group and other subsidiaries of Bank of China Limited. These transactions were executed at the relevant market rates at the time of the transactions.

(vii) Loans and related interest expenses

In the ordinary course of business, the Group obtained loans from BOC International Holdings Limited and other subsidiaries of Bank of China Limited to finance its margin financing activities and daily operations. The above borrowings were entered at the relevant market rates at the time of the transactions. During the year, the Group paid an interest expense of HK$217,276,000 and HK$2,792,000 (2017: HK$116,068,000 and HK$4,202,000) for the loans obtained from BOC International Holdings Limited and other subsidiaries of Bank of China Limited respectively.

32. RELATED PARTY TRANSACTIONS (continued)

(a) Summary of transactions entered into during the ordinary course of business with BOC International Holdings Limited and its subsidiaries, Bank of China Limited and its subsidiaries, and associates of BOC International Holdings Limited (continued)

(viii) Deposits from customers and interest expense on customer deposits

In the ordinary course of business, the Group accepted deposits from fellow subsidiaries in BOC International Holdings Limited and other subsidiaries of Bank of China Limited. As at 31 December 2018, the outstanding customer deposits amounted to HK$41,656,000 and HK$2,093,000 respectively (2017: HK$47,671,000 and HK$2,069,000) and interest expenses of HK$349,000 (2017: HK$73,000) were paid during the year. There were no outstanding deposits and balances from banks as at 31 December 2018 (2017: Nil).

(ix) Operating lease rental in respect of leased premises

In the ordinary course of business, the Group entered into an office lease agreement with a subsidiary of Bank of China (Hong Kong) Limited. The lease was executed at the relevant market rates at the time of the transactions. Significant portion of the operating lease commitment in relating to land and building as disclosed in note 31 are with that fellow subsidiary.

(x) Staff medical, recruitment, training & welfare expenses

The Group paid fees to fellow subsidiaries of Bank of China (Hong Kong) Limited for the insurance and training services provided to the Group.

(xi) Bank charges

In the ordinary course of business, the Group has incurred bank charges to Bank of China (Hong Kong) Limited and its related entities as a result of its daily operations.

(xii) Key management compensation

Key management are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, considering directors are key management which compensation was disclosed in note 8 to the consolidated financial statements.

(b) Transaction with BOC Poverty Relief and Education Charity Fund Limited

BOCI Group has established a charitable fund, namely BOC Poverty Relief and Education Charity Fund Limited (the "Charity Fund"), in 2008 and registered with Inland Revenue Department of Hong Kong SAR Government.

During the year, the Group accepted deposits and paid interest expenses of HK$142,447 (2017: HK$1,183) to the Charity Fund. As at 31 December 2018, there was outstanding customer deposits amounting to HK$45,030,755 (2017: HK$12,935,075) placed by the Charity Fund.

33. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fair value of derivatives or other financial instruments

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. Changes in methodologies about these valuation techniques could affect reported fair value of financial instruments.

Impairment allowance on loans and receivables

In determining ECL, the Group applies judgement in determining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and assessment of future economic conditions. Judgement has been applied in determining the lifetime and point of initial recognition of revolving facilities. The probability of default ("PD") and loss given default ("LGD") models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience.

Definition of default and credit-impaired assets

Default under the definition of HKFRS 9 is considered occurred when one of the following conditions is met:

- Loans or receivables which are considered uncollectible after exhausting all collection efforts, have no asset value and have already been classified as "loss";
- A debtor with difficulty in repayment applies for debt restructuring to cut the outstanding debt; and
- Loans or receivables require to be written off as specified by the local regulatory authorities.

Staging criteria

Movement between Stages 1, 2 and 3 is based on a set of predefined criteria whereas the Group has adopted a guideline to identify significant increase in credit risk since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition that is consistent with the internal credit risk management strategy. The criteria included, but not limited to, the following elements:

- External/internal credit rating;
- Days past due record;
- Loan classification for loan portfolio; and
- Other credit risk events, such as margin call, force liquidation, bankruptcy.

33. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Impairment allowance on loans and receivables (continued)

Multiple scenarios and forward-looking information

ECL is calculated as a probability-weighted product of the PD, LGD and present value of exposure at default discounted at effective interest rate across scenarios. Three scenarios are adopted in the probability-weighted ECL which included the Baseline, Upside, and Downside scenarios which presented different severity under the respective macroeconomic scenarios.

The Group considers both historical loss experience and current observable data, and uses reasonable and supportable information of future economic forecasts to estimate the amount of ECL. The Group adopted macroeconomic forecast data for countries/regions that have material impact to the Group's business, namely Hong Kong, China, United State, and EU28 (28 European countries include Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Croatia, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and United Kingdom). Besides, with reference to the macroeconomic factors ("MEF") normally adopted in International Monetary Fund ("IMF") stress testing, 6 macroeconomic factors are shortlisted in the forward-looking model, namely gross domestic product ("GDP"), consumer price index ("CPI"), unemployment rate, property price index, equity price index, and interest rate. The Group adopted MEF forecasts and probability data from external vendor to ensure independence for unbiased ECL measurement.

Taxes

Determining tax provisions involves significant judgement. There are many transactions and calculation for which the ultimate tax determination is uncertain. The Group evaluates tax implications of transactions and tax provisions are set up accordingly. Deferred tax assets are recognised for tax losses not yet used and temporary deductible difference arising from provisions. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Where the final tax outcome of these matters is different from the amounts that were initially estimated, such differences will impact the current income tax and deferred income tax in the period during which such a determination is made.

Revenue recognition of corporate finance income on sponsorship fees

The Group generates corporate finance income from sponsorship services. Revenue is recognised on a project basis over time based on work-in-progress method. The stage of completion assessment is made to determine the amount of revenue to recognise based on the estimated time and effort made on a particular project. Revenue is recognised to the extent of the stage of completion with respect to the performance obligations fulfilled. Any advances received are included in deferred revenue.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting periods is as follows:

	2018 HK$	2017 HK$
NON-CURRENT ASSETS		
Plant and equipment	-	-
Investment in subsidiaries	1,722,792,046	1,722,792,046
Deferred income tax assets	43,756	20,968
Statutory deposits and other assets	1,751	988
Total non-current assets	1,722,837,553	1,722,814,002
CURRENT ASSETS		
Financial assets at fair value through profit or loss	533,997,073	1,770,063,171
Debt instruments at amortised cost	99,929,641	-
Derivative financial instruments	27,139,627	258,120,197
Accounts and other receivables	313,706,123	112,104,253
Amounts due from the immediate holding company	1,719,597,867	1,155,000,000
Amounts due from a fellow subsidiary	2,720	-
Amounts due from a related company	-	31,570,338
Cash and balances with banks	1,686,310,631	2,342,830,562
Taxation recoverable	90,074,895	-
Total current assets	4,470,758,577	5,669,688,521
CURRENT LIABILITIES		
Subordinated loans from the immediate holding company	600,000,000	600,000,000
Amounts due to the immediate holding company	689,709,380	1,149,357,016
Amounts due to fellow subsidiaries	49,000	49,000
Amounts due to a subsidiary	84,293,938	195,327,389
Accounts and other payables	148,324,918	229,467,078
Derivative financial instruments	66,522,461	425,754,027
Financial liabilities at fair value through profit or loss	125,201,087	19,144,626
Taxation payable	-	65,622,591
Total current liabilities	1,714,100,784	2,684,721,727
NET CURRENT ASSETS	2,756,657,793	2,984,966,794
TOTAL ASSETS LESS CURRENT LIABILITIES	4,479,495,346	4,707,780,796

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	2018 HK$	2017 HK$
TOTAL ASSETS LESS CURRENT LIABILITIES	4,479,495,346	4,707,780,796
NON-CURRENT LIABILITIES		
Accounts and other payables	15,298,814	20,210,870
Total non-current liabilities	15,298,814	20,210,870
Net assets	4,464,196,532	4,687,569,926
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	2,000,000,000	2,000,000,000
Retained earnings	2,464,196,532	2,687,569,926
Total equity	4,464,196,532	4,687,569,926

Leung Yiu Kei
Director

Lee Kin Man
Director

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserve is as follows:

	Share capital HK$	Retained earnings HK$	Total HK$
Balance at 1 January 2017	2,000,000,000	1,722,957,071	3,722,957,071
Profit for the year	-	964,612,855	964,612,855
Total comprehensive income for the year	-	964,612,855	964,612,855
Balance at 31 December 2017	2,000,000,000	2,687,569,926	4,687,569,926
Balance at 1 January 2018	2,000,000,000	2,687,569,926	4,687,569,926
On adoption of HKFRS 9	-	(89,336)	(89,336)
As restated at 1 January 2018 under HKFRS 9	2,000,000,000	2,687,480,590	4,687,480,590
Total comprehensive income for the year	-	(223,284,058)	(223,284,058)
Balance at 31 December 2018	2,000,000,000	2,464,196,532	4,464,196,532